

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF ST. IGNACE	County MACKINAC
Fiscal Year End 12/21/06	Opinion Date 4/26/07	Date Audit Report Submitted to State 5/11/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 231-627-3143	
Street Address 902 S. HURON ST., PO BOX 250		City CHEBOYGAN	State MI
		Zip 49721	
Authorizing CPA Signature 	Printed Name ANNETTE EUSTICE, CPA, CGFM	License Number 1101019667	



Beauty & charm are on our side.

**CITY OF ST. IGNACE
ST. IGNACE, MICHIGAN**

FINANCIAL STATEMENTS

DECEMBER 31, 2006

CITY OF ST. IGNACE

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CITY OF ST. IGNACE

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INDEPENDENT AUDITORS' REPORT

April 26, 2007

Honorable Mayor and Members
of the City Council
City of St. Ignace
St. Ignace, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of St. Ignace**, (the "City"), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I-X is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the **City of St. Ignace**, (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal year 2006 by \$22,489,203 (*net assets*). Of this \$914,329 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- At December 31, 2006, unreserved fund balance in the General Fund was \$109,928 or approximately 5% of the total General Fund expenditures and transfers.
- Major asset acquisition items include the land for the intermodal passenger bus terminal project of \$300,140.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave and accrued interest expense).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, public works, culture and recreation and other. The business-type activities include the water, sewer, Marina, garbage collection and golf course funds.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority – the Downtown Development Authority – for which the City is financially accountable and as such, the DDA is accountable to the City for its activities.

The government-wide financial statements can be found on pages 3-5 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of *governmental funds* is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 30 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Recreation Debt Fund, and the Intermodal Passenger Capital Projects Fund, each of which are considered to be major funds. Data from the other 27 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General and special revenue funds. A budgetary comparison statement has been provided herein to demonstrate compliance with the General Fund. The budget, as adopted, delineates each of the individual funds and specifies a certain amount for each funds budget.

The basic *governmental fund* financial statements can be found on pages 6-10 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the various City functions. The City uses its internal service funds to account for its equipment and data processing activities.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund financial statements provide separate information for the water, sewer and marina departments which are considered major enterprise funds of the City. Data from the other two enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on 11-14 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside, the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-40 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* including the combining statements referred to earlier in connection with nonmajor governmental, nonmajor enterprise, internal service and fiduciary funds which are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 41-60 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$22,489,203 at the close of fiscal year 2006.

Approximately 94% of the City's net assets reflect its investment in net capital assets (e.g., land, buildings, equipment and vehicles); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net assets restricted for debt service and perpetual care represent approximately 2% of total net assets. The remaining balance of *unrestricted net assets* of \$914,329 may be used to meet the City's ongoing obligation to citizens and creditors.

City of St. Ignace
Net Assets
December 31, 2006

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets						
Cash and other assets	\$ 1,089,737	\$ 1,229,370	\$ 755,821	\$ 531,974	\$ 1,845,558	\$ 1,761,344
Capital assets not being depreciated	1,691,174	1,377,288	188,417	173,195	1,879,591	1,550,483
Capital assets, net of accumulated depreciation, where applicable	<u>6,937,023</u>	<u>6,962,915</u>	<u>20,565,873</u>	<u>21,144,547</u>	<u>27,502,896</u>	<u>28,107,462</u>
Total assets	<u>9,717,934</u>	<u>9,569,573</u>	<u>21,510,111</u>	<u>21,849,716</u>	<u>31,228,045</u>	<u>31,419,289</u>
Liabilities						
Current and other liabilities	456,964	856,276	179,365	217,172	636,329	1,073,447
Long-term debt, net of current portion	<u>2,246,503</u>	<u>2,394,559</u>	<u>5,856,010</u>	<u>6,025,010</u>	<u>8,102,513</u>	<u>8,419,569</u>
Total liabilities	<u>2,703,467</u>	<u>3,250,835</u>	<u>6,035,375</u>	<u>6,242,182</u>	<u>8,738,842</u>	<u>9,493,017</u>
Net assets						
Invested in capital assets, net of related debt	6,364,214	5,602,707	14,729,280	15,126,731	21,093,494	20,729,439
Restricted for debt service and perpetual care	25,706	35,032	455,674	432,805	481,380	467,837
Unrestricted	<u>624,547</u>	<u>680,999</u>	<u>289,782</u>	<u>47,977</u>	<u>914,329</u>	<u>728,996</u>
Total net assets	<u>\$ 7,014,467</u>	<u>\$ 6,318,738</u>	<u>\$15,474,736</u>	<u>\$15,607,534</u>	<u>\$22,489,203</u>	<u>\$21,926,272</u>

The City's net assets increased \$562,931 during the current fiscal year.

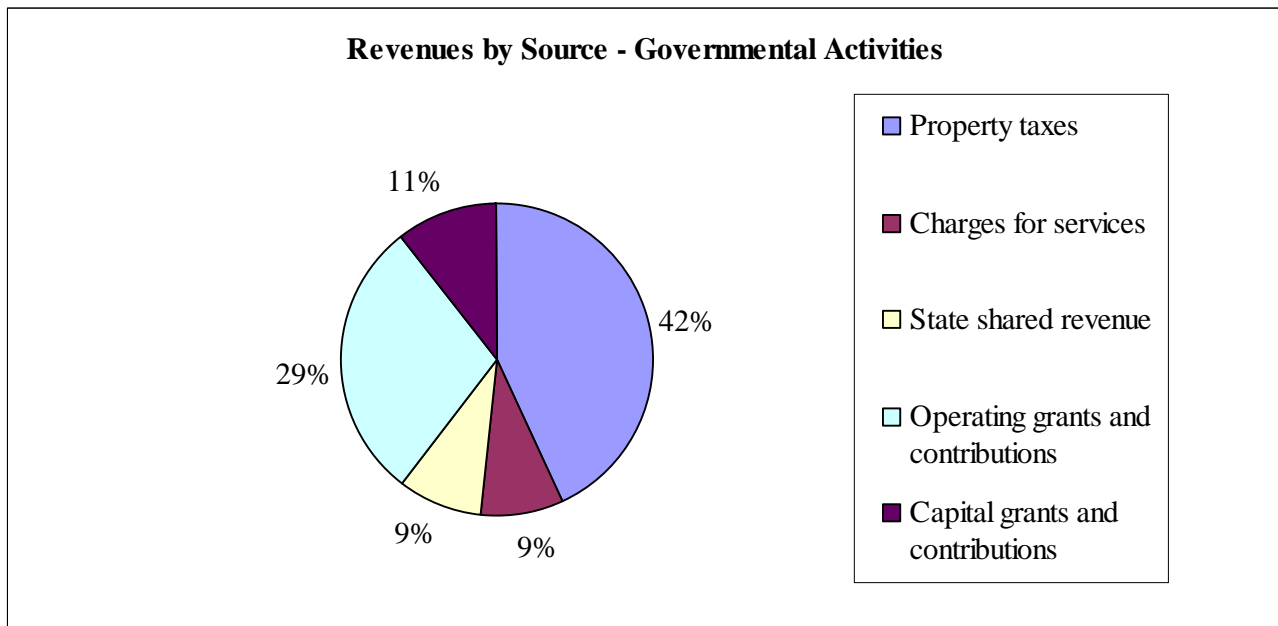
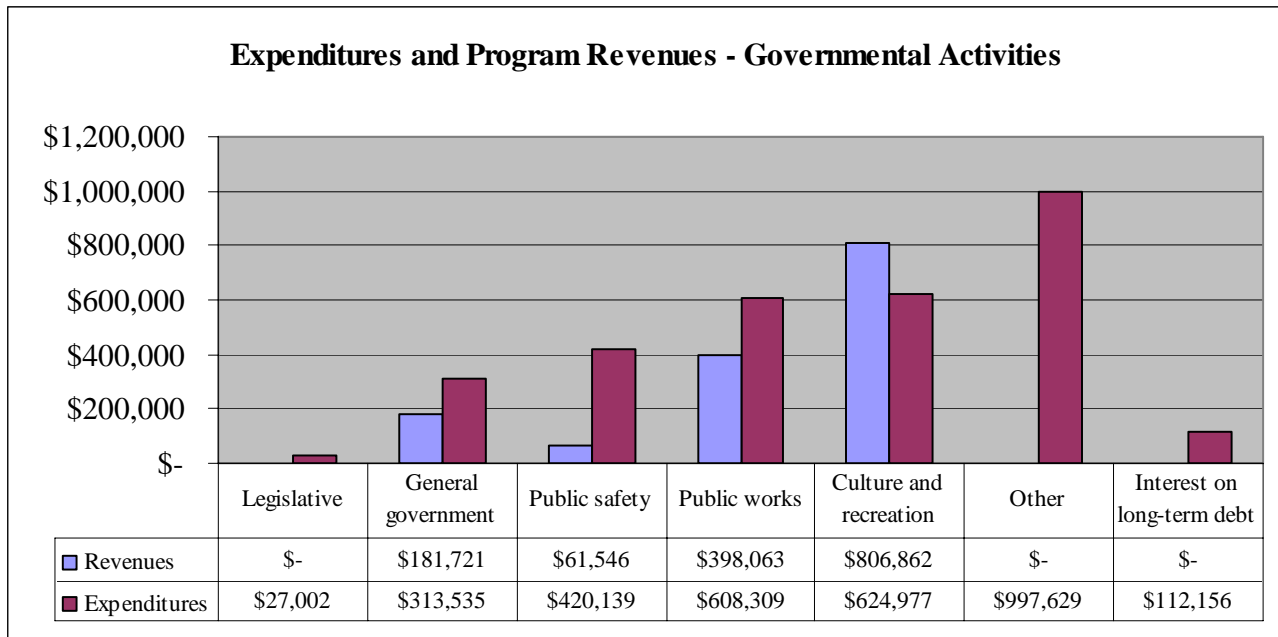
City of St. Ignace
Changes in Net Assets
For Year Ended December 31, 2006

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues						
Charges for services	\$ 259,911	\$ 409,176	\$ 2,625,219	\$ 2,464,224	\$ 2,885,130	\$ 2,873,400
Operating grants and contributions	870,169	996,414	127,575	68,328	997,744	1,064,742
Capital grants and contributions	318,112	263,422	-	-	318,112	263,422

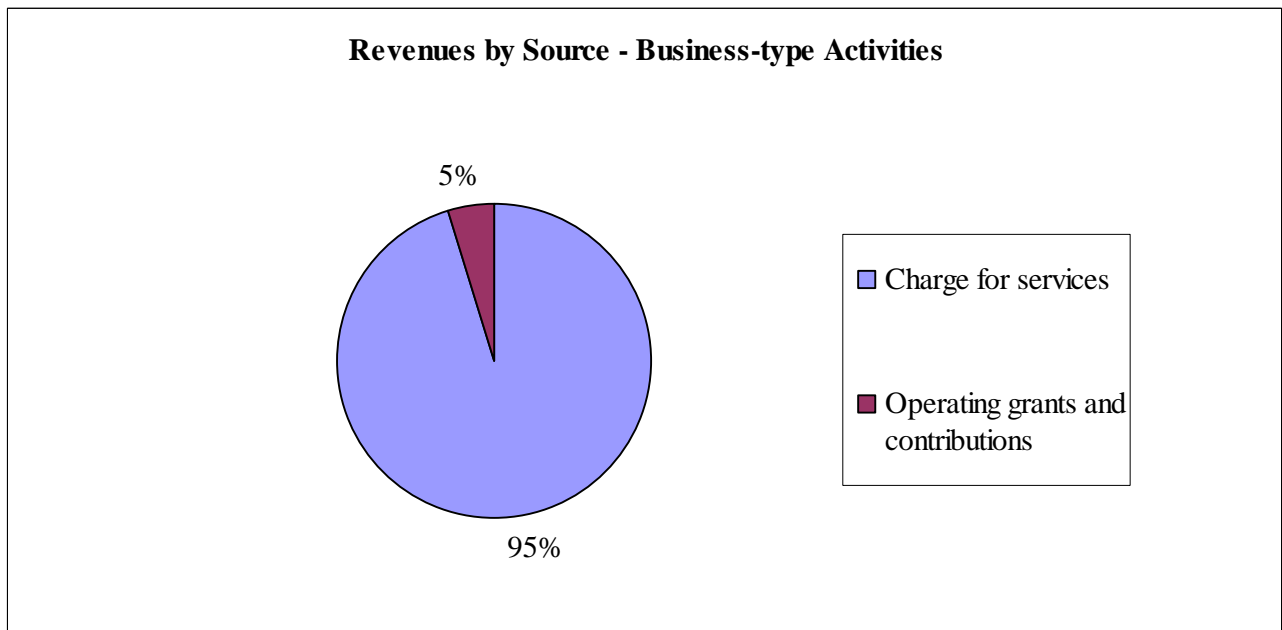
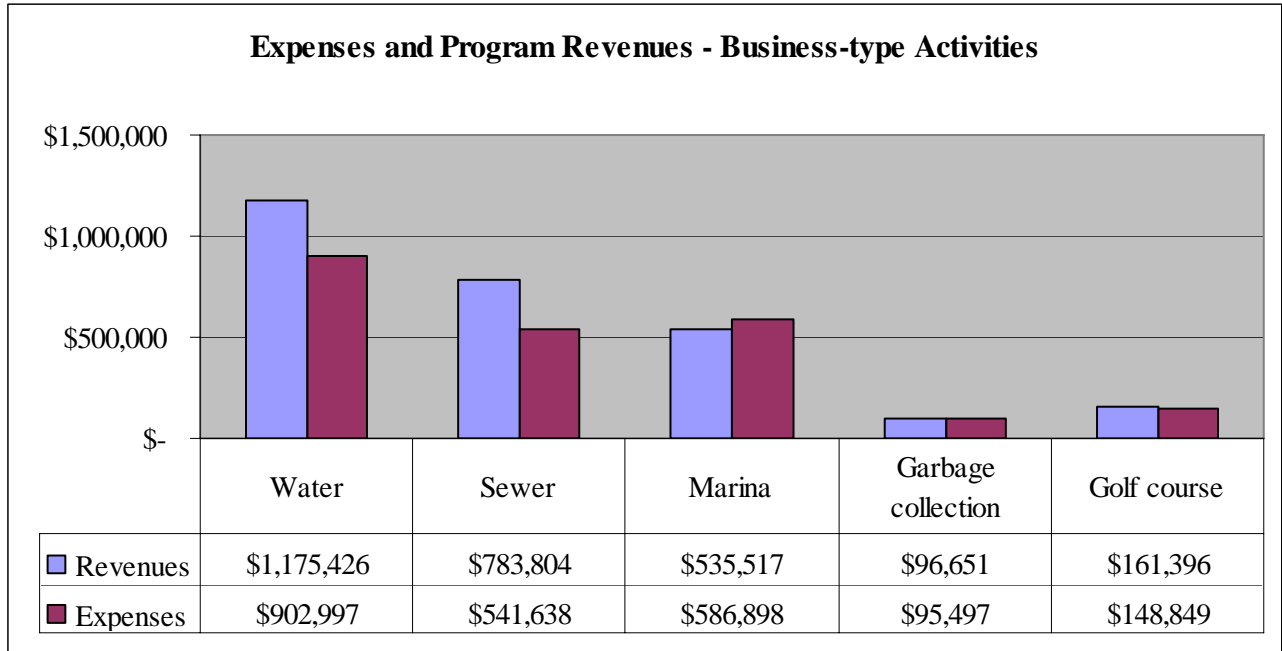
City of St. Ignace
Changes in Net Assets
For Year Ended December 31, 2006 (Concluded)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General revenues and transfers						
Property taxes –						
general operating	\$ 1,197,623	1,279,844	\$ -	\$ -	\$ 1,197,623	1,279,844
Property taxes – debt	90,137	77,703	-	-	90,137	77,703
State shared revenues	264,467	246,576	-	-	264,467	246,576
Interest earnings	8,663	12,822	9,502	14,985	18,165	27,807
Miscellaneous revenue	2,059	34,575	-	-	2,059	34,575
Transfers- internal activities	<u>619,215</u>	<u>611,246</u>	<u>(619,215)</u>	<u>(611,246)</u>	<u>-</u>	<u>-</u>
Total revenues and transfers	<u>3,630,356</u>	<u>3,931,778</u>	<u>2,143,081</u>	<u>1,936,291</u>	<u>5,773,437</u>	<u>5,868,069</u>
Expenses						
Legislative	27,002	27,662	-	-	27,002	27,662
General government	313,535	393,438	-	-	313,535	393,438
Public safety	420,139	428,322	-	-	420,139	428,322
Public works	608,309	621,152	-	-	608,309	621,152
Culture and recreation	624,977	559,014	-	-	624,977	559,014
Other	997,629	945,651	-	-	997,629	945,651
Water	-	-	902,997	827,739	902,997	827,739
Sewer	-	-	541,638	512,057	541,638	512,057
Marina	-	-	586,898	578,044	586,898	578,044
Garbage collection	-	-	95,497	94,895	95,497	94,895
Golf course	-	-	148,849	137,759	148,849	137,759
Interest on long-term debt	<u>112,156</u>	<u>157,589</u>	<u>-</u>	<u>-</u>	<u>112,156</u>	<u>157,589</u>
Total expenses	<u>3,103,747</u>	<u>3,132,828</u>	<u>2,275,879</u>	<u>2,150,494</u>	<u>5,379,626</u>	<u>5,283,322</u>
Change in net assets	526,609	798,590	(132,798)	(214,203)	393,811	584,747
Net assets – beginning of year, as previously reported	6,318,738	5,519,788	15,607,534	15,821,737	21,926,272	21,341,525
Prior period adjustment	<u>169,120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>169,120</u>	<u>-</u>
Net assets – end of year	<u>\$ 7,014,467</u>	<u>\$ 6,318,738</u>	<u>\$15,474,736</u>	<u>\$15,607,534</u>	<u>\$22,489,203</u>	<u>\$21,926,272</u>

Governmental activities. Governmental activities increased the City's net assets by \$695,729. This increase includes an amount of \$169,120 recorded as a prior period adjustment. The prior period adjustment was necessary because a road project was recorded as an expense in 2005, rather than as a capital asset.



Business-type activities. Business-type activities decreased the City's net assets by \$132,798.



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the main operating fund of the City. The General Fund's balance decreased by \$9,679 from \$166,416 to \$156,737 during 2006.

Proprietary funds. The City's *proprietary fund statements* provide the same type of information found in the government-wide financial statements, but in more detail.

As discussed below and in previous years, the Water and Marina Enterprise Funds are causing cash flow burdens on the other funds and these issues need to continue to be closely monitored in 2007.

General Fund Budgetary Highlights

The annual "Budget Review" highlights the proposed budget for each fiscal year and expounds upon the major budget issues. The audit for the fiscal year compares actual expenditures to budgeted amounts which require amending those expenditures. There were no budget amendments during the year and actual results came in very close to budget.

The 2007 budget attempts to eliminate previous budgeting shortfalls. Further, City administration is working to develop a financial model to better forecast fund trends.

Capital Asset and Debt Administration

Capital assets – The City defines a capital asset as an asset with an original cost that exceeds \$5,000 and an estimated useful life greater than one year. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives.

City of St. Ignace
Capital Assets
(net of depreciation, where applicable)
December 31, 2006

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 1,677,428	\$ 1,377,288	\$ 173,195	\$ 173,195	\$ 1,850,623	\$ 1,550,483
Construction in process	13,746	-	15,222	-	28,968	-
Buildings and improvements	5,607,420	5,778,007	5,355,033	5,531,326	10,962,453	11,309,333
Land improvements	417,354	251,430	-	-	417,354	251,430
Machinery and equipment	851,792	842,770	45,318	47,299	897,110	890,069
Vehicles	60,457	90,708	-	-	60,457	90,708
Water	-	-	7,343,757	7,556,804	7,343,757	7,556,804
Sewer	-	-	299,045	329,259	299,045	329,259
Marina	-	-	7,522,720	7,679,859	7,522,720	7,679,859
Total	<u>\$ 8,628,197</u>	<u>\$ 8,340,203</u>	<u>\$20,754,290</u>	<u>\$21,317,742</u>	<u>\$29,382,487</u>	<u>\$29,657,945</u>

Additional information on the City's capital assets can be found in Note 3C on pages 26-29 of this report.

Long-term debt. Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for through a debt service fund or proprietary fund. Debt is classified as long-term if the debt matures in a period greater than one year. At the end of the current fiscal year, the City had total debt outstanding of \$8,630,576. Of this amount \$2,605,566 is comprised of debt backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by a specified revenue source.

Additional information on the City's long-term debt can be found in Note 3F on pages 31-36 of this report.

Economic Factors and Next Year's Budgets and Rates

The City continues to experience increases in property values, which increases property tax revenues. However, the increased revenues generated from property tax increases have been largely offset by decreases in state shared revenue, due to the State of Michigan's current financial difficulties. The City continues to review methods for delivery of services and continues to seek grants and other funding sources.

The 2007 budget projects continued growth in taxable property values with state shared revenues remaining at the previous year's levels. The City will continue to monitor closely its capital needs, service requirements, and upcoming projects as they relate to budget and projected revenue streams.

Although, the City increased water and sewer rates during 2006, the City continues to have cash flow problems. The Water and Sewer Funds have not met their reserve requirements in the any of the past three years. The Water, Sewer and Marina Enterprise Funds must have some rate/cost adjustments in order to have a positive cash balance. Without these adjustments, these funds continue to be subsidized by the other funds which have led to a cash flow problem for all City funds.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Eric Dodson, City Manager, 396 N. State Street, St. Ignace, Michigan 49781.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ST. IGNACE
STATEMENT OF NET ASSETS

DECEMBER 31, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Totals	
Assets				
Cash and cash equivalents	\$ 416,871	\$ (283,157)	\$ 133,714	\$ 219,200
Investments	-	50,000	50,000	-
Cash held by fiscal agent	-	280,681	280,681	-
Receivables	520,632	214,788	735,420	130,321
Internal balances	83,275	(83,275)	-	-
Inventory	40,613	10,122	50,735	38,403
Due from primary government	-	-	-	38,104
Advance to component unit	4,536	-	4,536	-
Deferred loss on bond refunding	-	110,988	110,988	-
Restricted cash	23,810	455,674	479,484	-
Capital assets not being depreciated	1,691,174	188,417	1,879,591	297,919
Capital assets, net of depreciation	6,937,023	20,565,873	27,502,896	842,116
Total assets	9,717,934	21,510,111	31,228,045	1,566,063
Liabilities				
Accounts payable and accrued expenditures	59,797	10,365	70,162	276,299
Due to component unit	38,104	-	38,104	-
Advance from primary government	-	-	-	4,536
Noncurrent liabilities				
Due within one year	359,063	169,000	528,063	63,251
Due in more than one year	2,246,503	5,856,010	8,102,513	506,019
Total liabilities	2,703,467	6,035,375	8,738,842	850,105
Net assets				
Invested in capital assets, net of related debt	6,364,214	14,729,280	21,093,494	570,765
Restricted for				
Debt service	1,896	455,674	457,570	55,570
Expendable perpetual care	23,810	-	23,810	-
Unrestricted	624,547	289,782	914,329	89,623
Total net assets	\$ 7,014,467	\$ 15,474,736	\$ 22,489,203	\$ 715,958

The accompanying notes are an integral part of these financial statements.

CITY OF ST. IGNACE
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2006

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
Legislative	\$ 27,002	\$ -	\$ -	\$ -	\$ (27,002)
General government	313,535	44,888	136,833	-	(131,814)
Public safety	420,139	46,525	15,021	-	(358,593)
Public works	608,309	31,864	353,827	12,372	(210,246)
Culture and recreation	624,977	136,634	364,488	305,740	181,885
Other	997,629	-	-	-	(997,629)
Interest on long-term debt	112,156	-	-	-	(112,156)
Total governmental activities	3,103,747	259,911	870,169	318,112	(1,655,555)
Business-type activities					
Water	902,997	1,141,389	34,037	-	272,429
Sewer	541,638	776,052	7,752	-	242,166
Marina	586,898	469,004	66,513	-	(51,381)
Garbage collection	95,497	95,503	1,148	-	1,154
Golf course	148,849	143,271	18,125	-	12,547
Total business-type activities	2,275,879	2,625,219	127,575	-	476,915
Total primary government	\$ 5,379,626	\$ 2,885,130	\$ 997,744	\$ 318,112	\$ (1,178,640)
Component unit	\$ 455,734	\$ 85,324	\$ 41,322	\$ 156,766	\$ (172,322)

Continued...

CITY OF ST. IGNACE
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2006

	Primary Government		Component Unit
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (1,655,555)	\$ 476,915	\$ (1,178,640)
General revenues			
Property taxes			
General operating	1,197,623	-	1,197,623
Debt	90,137	-	90,137
State shared revenues	264,467	-	264,467
Interest earnings	8,663	9,502	18,165
Miscellaneous revenue	2,059	-	2,059
Transfers - internal activities	619,215	(619,215)	-
Total general revenues and transfers	2,182,164	(609,713)	1,572,451
Change in net assets	526,609	(132,798)	393,811
Net assets, beginning of year, as previously reported	6,318,738	15,607,534	21,926,272
Prior period adjustment	169,120	-	169,120
Net assets, beginning of year, as restated	6,487,858	15,607,534	22,095,392
Net assets, end of year	\$ 7,014,467	\$ 15,474,736	\$ 22,489,203

Concluded

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF ST. IGNACE

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2006

ASSETS	General	Recreation Debt	Intermodal Passenger	Nonmajor Funds	Total
Cash and cash equivalents	\$ 57,577	\$ (53,590)	\$ 241	\$ 445,897	\$ 450,125
Accounts receivable	65,358	-	-	20,738	86,096
Taxes receivable	181,705	11,462	-	10,420	203,587
Due from other governmental units	6,463	104,037	-	34,533	145,033
Inventory	40,613	-	-	-	40,613
Lease receivable	-	-	-	85,916	85,916
Advances to other funds	-	-	-	83,941	83,941
Advance to component unit	-	-	-	4,536	4,536
Restricted cash	-	-	-	23,810	23,810
Total assets	\$ 351,716	\$ 61,909	\$ 241	\$ 709,791	\$ 1,123,657
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 1,658	\$ -	\$ -	\$ 8,881	\$ 10,539
Accrued expenses	15,428	-	-	3,292	18,720
Due to other funds	-	-	-	587	587
Due to component unit	38,104	-	-	-	38,104
Deferred revenue	139,710	9,426	-	94,485	243,621
Advances from other funds	79	-	-	-	79
Total liabilities	194,979	9,426	-	107,245	311,650
Fund balances					
Reserved					
Inventory	40,613	-	-	-	40,613
Police training	6,196	-	-	-	6,196
Debt service	-	52,483	-	1,896	54,379
Perpetual care	-	-	-	23,810	23,810
Advances	-	-	-	88,477	88,477
Unreserved					
Designated - Special Revenue Funds - subsequent year's expenditures	-	-	-	7,950	7,950
Designated - Capital Projects	-	-	241	337,112	337,353
Undesignated	109,928	-	-	-	109,928
Undesignated, reported in Nonmajor Special Revenue Funds	-	-	-	143,301	143,301
Total fund balances	156,737	52,483	241	602,546	812,007
Total liabilities and fund balances	\$ 351,716	\$ 61,909	\$ 241	\$ 709,791	\$ 1,123,657

Continued...

CITY OF ST. IGNACE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

DECEMBER 31, 2006

**Reconciliation of fund balances on the balance sheet for governmental activities
to the statement of net assets for governmental activities**

Fund balances - total governmental funds	\$ 812,007
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Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets (net)	8,196,842
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Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add - current year deferred property taxes and lease receivable	243,621
---	---------

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in internal service funds	277,332
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences payable	(341,583)
Deduct - bonds payable	(2,145,000)
Deduct - accrued interest on bonds payable	(28,752)

Net assets of governmental activities	<u>\$ 7,014,467</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF ST. IGNACE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

	General	Recreation Debt	Intermodal Passenger	Nonmajor Funds	Total
Revenues					
Taxes and penalties	\$ 1,124,543	\$ 90,137	\$ -	\$ 72,992	\$ 1,287,672
Charges for services	48,527	-	-	145,802	194,329
Federal revenue	-	-	242,512	-	242,512
State revenue	262,448	-	60,628	339,018	662,094
Contributions	7,000	239,968	-	54,977	301,945
Interest	1,128	1,352	263	5,920	8,663
Miscellaneous	172,898	-	-	138,038	310,936
Total revenues	1,616,544	331,457	303,403	756,747	3,008,151
Expenditures					
Legislative	27,002	-	-	-	27,002
General government	325,064	-	-	-	325,064
Public safety	385,293	-	-	8,468	393,761
Public works	178,214	-	-	40,299	218,513
Culture and recreation	98,559	-	-	306,878	405,437
Highways and streets	-	-	-	304,173	304,173
Capital outlay	-	-	303,162	56,096	359,258
Other	941,409	-	-	55,523	996,932
Principal	-	280,000	-	265,000	545,000
Interest and fiscal charges	-	44,630	-	77,388	122,018
Total expenditures	1,955,541	324,630	303,162	1,113,825	3,697,158
Revenues over (under) expenditures	(338,997)	6,827	241	(357,078)	(689,007)
Other financing sources (uses)					
Transfers in	480,568	-	-	542,455	1,023,023
Transfers out	(151,250)	-	-	(174,943)	(326,193)
Total other financing sources	329,318	-	-	367,512	696,830
Change in fund balances	(9,679)	6,827	241	10,434	7,823
Fund balances, beginning of year	166,416	45,656	-	592,112	804,184
Fund balances, end of year	\$ 156,737	\$ 52,483	\$ 241	\$ 602,546	\$ 812,007

Continued...

CITY OF ST. IGNACE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

Reconciliation of the statement of revenues, expenditures and change in fund balance of governmental funds to the statement of activities for governmental activities

Change in fund balances - total governmental funds	\$ 7,823
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Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	346,503
Deduct - depreciation expense	(256,050)

In the statement of activities, only the loss on the disposal of assets is reported. Thus, the change in net assets differs from the change in fund balance by the net book value of the asset disposed.

Deduct - loss on asset disposals	(3,162)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add - change in property taxes and lease	88
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	545,000
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Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.

Deduct - operating loss from governmental activities accounted for internal service funds	(71,159)
---	----------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in compensated absences	22,971
Deduct - internal activities accounted for in internal service funds	(81,006)
Add - current year decrease in accrued interest	15,601

Change in net assets of governmental activities	\$ 526,609
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Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF ST. IGNACE

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget			Variance With
	Original	Amended	Actual	Amended
				Budget
				Positive
				(Negative)
Revenues				
Taxes and penalties	\$ 1,140,000	\$ 1,140,000	\$ 1,124,543	\$ (15,457)
Charges for services	50,500	50,500	48,527	(1,973)
State revenue	249,250	249,250	262,448	13,198
Contributions	7,000	7,000	7,000	-
Interest	1,250	1,250	1,128	(122)
Miscellaneous	146,860	146,860	172,898	26,038
Total revenues	1,594,860	1,594,860	1,616,544	21,684
Expenditures				
Legislative	32,500	32,500	27,002	5,498
General government	329,950	329,950	325,064	4,886
Public safety	384,510	384,510	385,293	(783)
Public works	141,150	141,150	178,214	(37,064)
Culture and recreation	107,150	107,150	98,559	8,591
Other	959,850	959,850	941,409	18,441
Total expenditures	1,955,110	1,955,110	1,955,541	(431)
Revenues under expenditures	(360,250)	(360,250)	(338,997)	21,253
Other financing sources (uses)				
Transfers in	522,000	522,000	480,568	(41,432)
Transfers out	(161,750)	(161,750)	(151,250)	10,500
Total other financing sources	360,250	360,250	329,318	(30,932)
Change in fund balance	-	-	(9,679)	(9,679)
Fund balance, beginning of year	166,416	166,416	166,416	-
Fund balance, end of year	\$ 166,416	\$ 166,416	\$ 156,737	\$ (9,679)

The accompanying notes are an integral part of these financial statements.

CITY OF ST. IGNACE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

DECEMBER 31, 2006

	Water	Sewer	Marina	Nonmajor Enterprise Funds
Assets				
Current assets				
Cash and cash equivalents	\$ (177,308)	\$ (149,765)	\$ (56,083)	\$ 99,999
Investments	-	-	-	50,000
Cash held by fiscal agent	280,681	-	-	-
Accounts receivable	99,310	78,861	119	10,748
Due from other governmental units	-	-	25,750	-
Due from other funds	587	-	-	-
Inventory	-	-	10,122	-
Total current assets	203,270	(70,904)	(20,092)	160,747
Noncurrent assets				
Property and equipment, net of accumulated depreciation	7,390,667	5,711,458	7,523,210	128,955
Unamortized bond issuance costs	75,988	-	-	-
Deferred loss on bond refunding	35,000	-	-	-
Restricted cash	455,674	-	-	-
Total noncurrent assets	7,957,329	5,711,458	7,523,210	128,955
Total assets	8,160,599	5,640,554	7,503,118	289,702
Liabilities				
Current liabilities				
Accrued expenses	4,717	2,498	-	-
Customer deposits	3,150	-	-	-
Current portion of bonds and notes payable	158,000	11,000	-	-
Total current liabilities	165,867	13,498	-	-
Long-term debt				
Advance from other funds	83,862	-	-	-
Bonds payable, net of current portion	5,099,000	757,010	-	-
Notes payable, net of current portion	-	-	-	-
Total long-term debt	5,182,862	757,010	-	-
Total liabilities	5,348,729	770,508	-	-
Net assets				
Invested in capital assets, net of related debt	2,133,667	4,943,448	7,523,210	128,955
Restricted for debt service	455,674	-	-	-
Unrestricted (deficit)	222,529	(73,402)	(20,092)	160,747
Total net assets	\$ 2,811,870	\$ 4,870,046	\$ 7,503,118	\$ 289,702

The accompanying notes are an integral part of these financial statements.

Total Enterprise Funds	Internal Service Funds
\$ (283,157)	\$ (33,254)
50,000	-
280,681	-
189,038	-
25,750	-
587	-
10,122	-
273,021	(33,254)
20,754,290	431,355
75,988	-
35,000	-
455,674	-
21,320,952	431,355
21,593,973	398,101
7,215	1,786
3,150	-
169,000	33,263
179,365	35,049
83,862	-
5,856,010	-
-	85,720
5,939,872	85,720
6,119,237	120,769
14,729,280	312,372
455,674	-
289,782	(35,040)
\$ 15,474,736	\$ 277,332

CITY OF ST. IGNACE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

	Water	Sewer	Marina	Nonmajor Enterprise Funds
Operating revenues				
Sales and charges for services	\$ -	\$ -	\$ 469,004	\$ 238,774
Sales and charges for services pledged as security for revenue bonds	1,141,389	776,052	-	-
Total operating revenues	1,141,389	776,052	469,004	238,774
Operating expenses				
Personal services	-	-	66,595	56,554
Contracted services	-	-	14,409	96,863
General and administrative	59,441	50,287	-	-
Repair and maintenance	-	-	-	26,939
Supplies	-	-	252,264	6,951
Line maintenance	105,473	29,638	-	-
Plant operations	268,583	244,744	-	-
Depreciation and amortization	220,975	181,959	206,640	27,582
Miscellaneous	-	-	46,990	29,457
Total operating expenses	654,472	506,628	586,898	244,346
Operating income (loss)	486,917	269,424	(117,894)	(5,572)
Non-operating revenues (expenses)				
Interest income	1,934	1,934	1,992	3,642
Interest expense	(248,525)	(35,010)	-	-
State revenue	-	-	35,458	-
Miscellaneous revenue	34,037	7,752	31,055	19,273
Total non-operating revenues (expenses)	(212,554)	(25,324)	68,505	22,915
Income (loss) before transfers	274,363	244,100	(49,389)	17,343
Other financing sources (uses)				
Transfers in	3,000	-	-	-
Transfers out	(185,970)	(321,829)	(94,622)	(19,794)
Total other financing uses	(182,970)	(321,829)	(94,622)	(19,794)
Change in net assets	91,393	(77,729)	(144,011)	(2,451)
Net assets, beginning of year	2,720,477	4,947,775	7,647,129	292,153
Net assets, end of year	\$ 2,811,870	\$ 4,870,046	\$ 7,503,118	\$ 289,702

The accompanying notes are an integral part of these financial statements.

Total Enterprise Funds	Internal Service Funds
\$ 707,778	\$ 297,801
1,917,441	-
2,625,219	297,801
123,149	103,559
111,272	11,048
109,728	-
26,939	76,529
259,215	62,890
135,111	-
513,327	-
637,156	87,580
76,447	27,354
1,992,344	368,960
632,875	(71,159)
9,502	843
(283,535)	(6,293)
35,458	-
92,117	2,059
(146,458)	(3,391)
486,417	(74,550)
3,000	8,000
(622,215)	(85,615)
(619,215)	(77,615)
(132,798)	(152,165)
15,607,534	429,497
\$ 15,474,736	\$ 277,332

CITY OF ST. IGNACE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Marina</u>	<u>Non-major Enterprise Funds</u>
Cash flows from operating activities				
Cash collected from customers	\$ 1,135,212	\$ 768,989	\$ 468,885	\$ 239,229
Cash collected from other funds	-	-	-	-
Cash paid for employee wages and benefits	(206,154)	(112,412)	(66,595)	(56,554)
Cash paid for other operating and administrative expenses	(514,853)	(219,749)	(318,469)	(168,004)
Net cash provided by operating activities	414,205	436,828	83,821	14,671
Cash flows from non-capital financing activities				
Transfers in	3,000	-	-	-
Transfers out	(185,970)	(321,829)	(94,622)	(19,794)
Other income	34,037	7,752	31,055	19,273
Net cash used in non-capital financing activities	(148,933)	(314,077)	(63,567)	(521)
Cash flows from capital and related financing activities				
Interest expense	(248,525)	(35,010)	-	-
Principal payments	(156,000)	(10,000)	-	-
State revenue	-	-	9,708	-
Purchase of property and equipment	-	-	(49,220)	(16,556)
Net cash used in capital and related financing activities	(404,525)	(45,010)	(39,512)	(16,556)
Cash flows from investing activities				
Interest revenue	1,934	1,934	1,992	3,642
Net (decrease) increase in cash and cash equivalents	(137,319)	79,675	(17,266)	1,236
Cash and cash equivalents, beginning of year	415,685	(229,440)	(38,817)	98,763
Cash and cash equivalents, including restricted cash, end of year	278,366	(149,765)	(56,083)	99,999
Restricted cash, end of year	455,674	-	-	-
Cash and cash equivalents, end of year	\$ (177,308)	\$ (149,765)	\$ (56,083)	\$ 99,999

Total Enterprise Funds	Internal Service Funds
\$ 2,612,315	\$ -
-	297,801
(441,715)	(103,559)
(1,221,075)	(187,284)
949,525	6,958
3,000	8,000
(622,215)	(85,615)
92,117	2,059
(527,098)	(75,556)
(283,535)	(6,293)
(166,000)	(31,962)
9,708	-
(65,776)	(15,714)
(505,603)	(53,969)
9,502	843
(73,674)	(121,724)
246,191	88,470
172,517	(33,254)
455,674	-
\$ (283,157)	\$ (33,254)

Continued...

CITY OF ST. IGNACE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Marina</u>	<u>Nonmajor Enterprise Funds</u>
Operating income (loss)	\$ 486,917	\$ 269,424	\$ (117,894)	\$ (5,572)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	220,975	181,959	206,640	27,582
Changes in operating assets and liabilities which provided (used) cash				
Cash held by fiscal agent	(280,681)	-	-	-
Accounts receivable	(6,177)	(7,063)	(119)	455
Due from other funds	(587)	-	-	-
Inventory	-	-	(2,647)	-
Accounts payable	(6,505)	(7,880)	(2,049)	(7,794)
Accrued expenses	522	388	(110)	-
Customer deposits	(259)	-	-	-
Net cash provided by operating activities	<u><u>\$ 414,205</u></u>	<u><u>\$ 436,828</u></u>	<u><u>\$ 83,821</u></u>	<u><u>\$ 14,671</u></u>
Noncash non-capital financing and investing activities				
Equipment purchased with note payable				

The accompanying notes are an integral part of these financial statements.

Total Enterprise Funds		Internal Service Funds	
\$	632,875	\$	(71,159)
	637,156		87,580
	(280,681)		-
	(12,904)		-
	(587)		-
	(2,647)		-
	(24,228)		(9,535)
	800		72
	(259)		-
\$	949,525	\$	6,958

\$ 103,449

Concluded

CITY OF ST. IGNACE
STATEMENT OF FIDUCIARY NET ASSETS
CURRENT TAX COLLECTION - AGENCY FUND

DECEMBER 31, 2006

Assets	
Cash and cash equivalents	<u><u>\$ 370,266</u></u>
Liabilities	
Due to other governmental units	<u><u>\$ 370,266</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the *City of St. Ignace* (the “City”) and its component units. The component units discussed below are included in the City’s reporting entity because of the significance of their operational or financial relationship with the City.

St. Ignace Building Authority - The St. Ignace Building Authority is a blended component unit of the City.

St. Ignace Downtown Development Authority - The Downtown Development Authority (the “DDA”) is a discretely presented component unit of the City. The component unit columns in the government-wide financial statements include the financial data of the DDA. This unit is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing Board of the DDA are appointed by the City Council. The budgets and expenditures of the DDA must be approved by the City Council. The City also has the ability to significantly influence operations of the DDA.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from a certain legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Recreation Debt Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt related to construction of the recreation center.

The *Intermodal Passenger Fund* is a capital projects fund which accounts for the construction of an intermodal transportation terminal to be used for public transportation.

The City reports the following major enterprise funds:

The *Water Fund* accounts for the operation, maintenance and development of water facilities.

The *Sewer Fund* accounts for the operation, maintenance and development of sewer facilities.

The *Marina Fund* accounts for the operation, maintenance and development of marina facilities.

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are accumulated for specific purposes not including major capital projects.

Debt Service Funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Capital Projects Funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Permanent Fund. The Cemetery Perpetual Care Fund is the City's Permanent Fund. The principal portion of these funds must stay intact, but the interest earnings are used to provide for maintenance of the City's cemetery.

Enterprise Funds. These funds account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. These funds account for operations that provide machinery and equipment, office equipment and data processing services to other departments of the City on a cost-reimbursement basis.

Agency Fund. This fund accounts for assets held for other governments in an agency capacity.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The agency fund also uses the accrual basis of accounting but does not have a measurement focus.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement-based grants. Property taxes, state revenue and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

D. Assets, Liabilities and Equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

2. Receivables and payables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are generally offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes

The City's property taxes are levied each July 1 and December 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through February 28; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Mackinac County. Assessed values, as established annually by the City and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value.

Property taxes are recognized in the fiscal year in which they are levied.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

3. *Inventories*

Inventory maintained by the General Fund and Marina Enterprise Fund is valued at cost using the first-in, first-out method. Inventory maintained by the DDA's Museum Store Fund is valued at cost using the specific identification method. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventory is not considered material. The cost value of such inventory was recorded as an expenditure at the time of purchase.

4. *Restricted cash*

Certain resources are set aside for repayment of the City's Water Enterprise Fund bonds and are classified as restricted cash on the Statement of Net Assets because their use is limited by applicable bond covenants.

The City is not in compliance with its bond covenants. See Note #3F.

5. *Capital assets*

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	15-40
Land improvements	15-40
Marina	5-40
Equipment	5-25
Vehicles	5-20
Water and sewer system	10-50

6. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

7. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

8. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and special revenue funds. All annual appropriations lapse at fiscal year end.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

B. Excess of expenditures over appropriations

	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund			
Public safety	\$ 384,510	\$ 385,293	\$ 783
Public works	141,150	178,214	37,064

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 133,714	\$ 219,200	\$ 352,914
Investments	50,000	-	50,000
Cash held by fiscal agent	280,681	-	280,681
Restricted cash	<u>479,484</u>	<u>-</u>	<u>479,484</u>
Total Statement of Net Assets	<u>\$ 943,879</u>	<u>\$ 219,200</u>	
Statement of Fiduciary Net Assets			
Cash and cash equivalents			<u>370,266</u>
Total deposits and investments			<u>\$ 1,533,345</u>

A reconciliation of cash and investments as shown in the financial statements to the City's deposits and investments is as follows:

Bank deposits (checking accounts and savings accounts)	\$ 1,200,773
Investments (CDs)	50,000
Cash held by fiscal agent	280,681
Cash on hand	<u>1,891</u>
Total deposits and investments	<u>\$ 1,533,345</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City has no investments for which ratings are required.

Custodial credit risk deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$1,116,074 of the City's bank balance of \$1,266,157 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts or a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

B. Receivables

The composition of receivables is as follows as of December 31, 2006:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts receivable	\$ 86,096	\$ 189,038	\$ -
Taxes receivable	203,587	-	34,395
Due from other governmental units	145,033	25,750	95,926
Lease receivable			
Due within one year	2,650	-	-
Due after one year	<u>83,266</u>	<u>-</u>	<u>-</u>
Total receivables	<u>\$ 520,632</u>	<u>\$ 214,788</u>	<u>\$ 130,321</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Property taxes receivable (General Fund)	\$ 139,710
Property taxes receivable (Recreation Debt Service Fund)	9,426
Property taxes receivable (Nonmajor Governmental Fund types)	8,569
Lease receivable	<u>85,916</u>
Total deferred revenue	<u>\$ 243,621</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

C. Capital assets

Capital asset activity was as follows for the year ended December 31, 2006:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Prior Period Adjustment</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities					
Capital assets not being depreciated					
Land	\$ 1,377,288	\$ 300,140	\$ -	\$ -	\$ 1,677,428
Construction-in-process	-	13,746	-	-	13,746
Total non-depreciated assets	<u>1,377,288</u>	<u>313,886</u>	<u>-</u>	<u>-</u>	<u>1,691,174</u>
Capital assets being depreciated					
Buildings	6,690,157	-	-	(18,929)	6,671,228
Land improvements	314,206	12,140	169,120	-	495,466
Equipment	2,013,213	139,640	-	(84,158)	2,068,695
Vehicles	<u>531,906</u>	<u>-</u>	<u>-</u>	<u>(62,306)</u>	<u>469,600</u>
Total capital assets being depreciated	<u>9,549,482</u>	<u>151,780</u>	<u>169,120</u>	<u>(165,393)</u>	<u>9,704,989</u>
Less accumulated depreciation for					
Buildings	(912,150)	(167,425)	-	15,767	(1,063,808)
Land improvements	(62,776)	(15,336)	-	-	(78,112)
Equipment	(1,170,443)	(130,618)	-	84,158	(1,216,903)
Vehicles	<u>(441,198)</u>	<u>(30,251)</u>	<u>-</u>	<u>62,306</u>	<u>(409,143)</u>
Total accumulated depreciation	<u>(2,586,567)</u>	<u>(343,630)</u>	<u>-</u>	<u>162,231</u>	<u>(2,767,966)</u>
Total capital assets being depreciated, net	<u>6,962,915</u>	<u>(191,850)</u>	<u>169,120</u>	<u>(3,162)</u>	<u>6,937,023</u>
Governmental activities capital assets, net	<u>\$ 8,340,203</u>	<u>\$ 122,036</u>	<u>\$ 169,120</u>	<u>\$ (3,162)</u>	<u>\$ 8,628,197</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Reclassifications</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities					
Capital assets not being depreciated					
Land	\$ 173,195	\$ -	\$ -	\$ -	\$ 173,195
Construction-in-process	<u>-</u>	<u>-</u>	<u>15,222</u>	<u>-</u>	<u>15,222</u>
Total non-depreciated assets	<u>173,195</u>	<u>-</u>	<u>15,222</u>	<u>-</u>	<u>188,417</u>
Capital assets being depreciated					
Buildings	8,341,484	-	-	-	8,341,484
Machinery and equipment	356,176	16,556	-	(28,215)	344,517
Water	10,323,882	-	-	(34,208)	10,289,674
Sewer	746,452	-	(15,222)	(3,509)	727,721
Marina	<u>8,225,634</u>	<u>49,220</u>	<u>-</u>	<u>-</u>	<u>8,274,854</u>
Total capital assets being depreciated	<u>27,993,628</u>	<u>65,776</u>	<u>(15,222)</u>	<u>(65,932)</u>	<u>27,978,250</u>
Less accumulated depreciation for					
Buildings	(2,810,158)	(176,293)	-	-	(2,986,451)
Machinery and equipment	(308,877)	(18,537)	-	28,215	(299,199)
Water	(2,767,078)	(213,047)	-	34,208	(2,945,917)
Sewer	(417,193)	(14,992)	-	3,509	(428,676)
Marina	<u>(545,775)</u>	<u>(206,359)</u>	<u>-</u>	<u>-</u>	<u>(752,134)</u>
Total accumulated depreciation	<u>(6,849,081)</u>	<u>(629,228)</u>	<u>-</u>	<u>65,932</u>	<u>(7,412,377)</u>
Total capital assets being depreciated, net	<u>21,144,547</u>	<u>(563,452)</u>	<u>(15,222)</u>	<u>-</u>	<u>20,565,873</u>
Business-type activities capital assets, net	<u>\$21,317,742</u>	<u>\$ (563,452)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$20,754,290</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 18,765
Public safety	29,157
Public works	28,632
Culture and recreation	179,496
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>87,580</u>

Total depreciation expense – governmental activities **\$ 343,630**

Business-type activities

Water	\$ 213,047
Sewer	181,959
Marina	206,640
Golf course	<u>27,582</u>

Total depreciation expense – business-type activities **\$ 629,228**

Component Unit	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 173,733	\$ -	\$ -	\$ 173,733
Construction-in-process	<u>-</u>	<u>124,186</u>	<u>-</u>	<u>124,186</u>
Total non-depreciated assets	<u>173,733</u>	<u>124,186</u>	<u>-</u>	<u>297,919</u>
Capital assets being depreciated,				
Buildings	248,844	-	-	248,844
Equipment	162,107	-	-	162,107
Land improvements	<u>1,039,559</u>	<u>62,827</u>	<u>-</u>	<u>1,102,386</u>
Total capital assets being depreciated	<u>1,450,510</u>	<u>62,827</u>	<u>-</u>	<u>1,513,337</u>
Less accumulated depreciation for				
Buildings	(66,951)	(9,327)	-	(76,278)
Land improvements	(521,634)	(51,892)	-	(573,526)
Equipment	<u>(16,186)</u>	<u>(5,231)</u>	<u>-</u>	<u>(21,417)</u>
Total accumulated depreciation	<u>(604,771)</u>	<u>(66,450)</u>	<u>-</u>	<u>(671,221)</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated, net	\$ 845,739	\$ (3,623)	\$ -	\$ 842,116
Component unit capital assets, net	<u>\$ 1,019,472</u>	<u>\$ 120,563</u>	<u>\$ -</u>	<u>\$ 1,140,035</u>

Unallocated depreciation expense for the year ended December 31, 2006 was \$66,450.

D. Accounts payable and accrued expenses

The composition of accounts payable and accrued expenses is as follows as of December 31, 2006:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts payable	\$ 10,539	\$ -	\$ 59,158
Accrued expenses	49,258	7,215	10,936
Customer deposits	-	3,150	-
Due to other governmental units	<u>-</u>	<u>-</u>	<u>206,205</u>
Total accounts payable and accrued expenses	<u>\$ 59,797</u>	<u>\$ 10,365</u>	<u>\$ 276,299</u>

E. Interfund transfers, receivables and payables

Advances to/from other funds consist of advances to the General Fund and Water Enterprise Fund of \$79 and \$83,862, respectively, from the Capital Improvement Trust Capital Project Fund.

Advances to/from component unit consist of advances to the DDA Property Management Fund of \$4,536 from the Capital Improvement Trust Capital Project Fund.

The Wastewater Plant Capital Project Fund has an amount of \$587 due to the Water Enterprise Fund. This amount was necessary to pay expenditures of the Wastewater Plant Capital Project Fund.

The General Fund has an amount due to the DDA component unit of \$38,104 at December 31, 2006. This is the amount the General Fund owes the DDA for the amount the DDA owes the State of Michigan for DDA taxes over-captured in prior years.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers consisted of the following for the year ended December 31, 2006:

<u>Transfer from</u>	<u>Transfer to</u>				<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Water</u>	<u>Internal Service Funds</u>	
General Fund	\$ -	\$ 151,250	\$ -	-	\$ 151,250
Water	157,957	28,013	-	-	185,970
Sewer	83,352	238,477	-	-	321,829
Marina	28,972	65,650	-	-	94,622
Nonmajor					
Governmental Funds	112,878	59,065	3,000	-	174,943
Nonmajor					
Enterprise Funds	19,794	-	-	-	19,794
Internal Service Funds	<u>77,615</u>	<u>-</u>	<u>-</u>	<u>8,000</u>	<u>85,615</u>
Subtotal transfers in	<u>\$ 480,568</u>	<u>\$ 542,455</u>	<u>\$ 3,000</u>	<u>\$ 8,000</u>	<u>\$1,034,023</u>

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers within the DDA component unit for the year ended December 31, 2006 consisted of transfers from the General Downtown Fund to the Museum Operations Fund of \$40,000, the American Legion Park Fund of \$5,000 and the Gateway Project Fund of \$5,802. These transfers were made to support the operations of those funds.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

F. Long-term debt

A summary of long-term debt and transactions related thereto is as follows for the year ended December 31, 2006:

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance December 31, 2006</u>	<u>Due Within 1 Year</u>
<u>Primary Government</u>					
Governmental activities					
1998 General Obligation Unlimited Tax Bonds maturing serially to 2013 in annual amounts ranging from \$80,000 to \$125,000 and bearing interest at 4.0%.	\$ 950,000	\$ -	\$ (255,000)	\$ 695,000	\$ 80,000
2001 Building Authority Marina Bonds maturing serially to 2021 in annual amounts ranging from \$25,000 to \$100,000 and bearing interest ranging from 5.1% to 6.0%.	895,000	-	(25,000)	870,000	25,000

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance December 31, 2006</u>	<u>Due Within 1 Year</u>
1997 Advance Refunding of Series 1986A Bonds matured during 2006.	\$ 170,000	\$ -	\$ (170,000)	\$ -	-
1997 Advance Refunding of Series 1986A Bonds matured during 2006.	45,000	-	(45,000)	-	-
1993 Advance Refunding of 1986 issue maturing serially to 2016 in annual amounts ranging from \$15,000 to \$30,000 and bearing interest at 5.642%.	250,000	-	(15,000)	235,000	20,000
2003 Recreation Center Improvement Bonds maturing serially to 2012 in annual amounts ranging from \$30,000 to \$35,000 and bearing interest ranging from 2.4% to 3.1%.	215,000	-	(25,000)	190,000	30,000
1993 Advance Refunding of 1986 issue maturing serially to 2016 in annual amounts ranging from \$10,000 to \$20,000 and bearing interest at 5.672%.	165,000	-	(10,000)	155,000	10,000

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance December 31, 2006</u>	<u>Due Within 1 Year</u>
Installment loan to First National Bank payable in monthly installments of \$1,712 through 2008 including interest charged at 3.557%.	\$ 47,496	\$ -	\$ (19,159)	\$ 28,337	\$ 19,852
Installment loan to First National Bank payable in annual payments of \$17,716 through 2012 including interest charged at 4.75%.	-	103,449	(12,803)	90,646	13,411
Accumulated sick and vacation pay.	<u>364,554</u>	<u>154,878</u>	<u>(177,849)</u>	<u>341,583</u>	<u>160,800</u>
Total governmental activities	<u>3,102,050</u>	<u>258,327</u>	<u>(754,811)</u>	<u>2,605,566</u>	<u>359,063</u>
Business-type activities					
2002 Series Water Supply System Revenue Refunding Bonds maturing serially to 2020 in annual amounts ranging from \$125,000 to \$280,000 and bearing interest ranging from 4.00% to 5.25%.	2,865,000	-	(125,000)	2,740,000	125,000

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance December 31, 2006</u>	<u>Due Within 1 Year</u>
2000 Series Water Supply System Revenue Bonds maturing serially to 2040 in annual amounts ranging from \$33,000 to \$142,000 and bearing interest of 4.5%.	\$2,548,000	\$ -	\$ (31,000)	\$2,517,000	\$ 33,000
1999 A Series Sewage Disposal Revenue Bonds maturing serially to 2038 in annual amounts ranging from \$10,000 to \$38,000 and bearing interest of 4.5%.	685,000	-	(9,000)	676,000	10,000
1999 B Series Sewage Disposal Revenue Bonds maturing serially to 2038 in annual amounts ranging from \$1,000 to \$8,010 and bearing interest of 4.5%.	<u>93,010</u>	<u>-</u>	<u>(1,000)</u>	<u>92,010</u>	<u>1,000</u>
Total business-type activities	<u>6,191,010</u>	<u>-</u>	<u>(166,000)</u>	<u>6,025,010</u>	<u>169,000</u>
Total primary government	<u>\$9,293,060</u>	<u>\$ 258,327</u>	<u>\$ (920,811)</u>	<u>\$8,630,576</u>	<u>\$ 528,063</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance</u> <u>January 1,</u> <u>2006</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>December 31,</u> <u>2006</u>	<u>Due</u> <u>Within</u> <u>1 Year</u>
<u>Discretely Presented</u>					
<u>Component Unit -</u>					
<u>DDA</u>					
1994 Downtown Development Bonds maturing serially to 2013 in annual amounts ranging from \$50,000 to \$100,000 and bearing interest from 6.6% to 6.8%.	\$ 550,000	\$ -	\$ (50,000)	\$ 500,000	50,000
Installment land contract by Downtown Development Authority payable in semi-annual payments of \$9,435 through 2011, including 8.5% interest.	\$ 81,462	\$ -	\$ (12,192)	\$ 69,270	\$ 13,251
Total component unit	<u>\$ 631,462</u>	<u>\$ -</u>	<u>\$ (62,192)</u>	<u>\$ 569,270</u>	<u>\$ 63,251</u>

The City's Water and Sewer Enterprise Funds revenue bonds include covenants requiring the City to maintain various cash reserve accounts that total approximately \$369,000 and \$259,000, respectively. At December 31, 2006 the City's Water Fund had excess reserves of approximately \$87,000; however, the City's Sewer Fund was under reserved by approximately \$215,000. Accrued compensated absences are generally liquidated by the Vacation and Sick Pay Special Revenue Fund for all governmental, business-type activities and the component unit.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the above obligations except for accrued compensated absences are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 198,263	\$ 107,598	\$ 169,000	\$ 276,678
2008	187,530	99,341	195,000	269,082
2009	189,715	91,318	199,000	260,638
2010	225,414	82,569	194,000	251,866
2011	236,145	72,399	203,000	242,903
2012-2016	806,916	205,388	1,284,000	1,053,582
2017-2021	420,000	76,879	1,406,000	693,201
2022-2026	-	-	464,000	486,745
2027-2031	-	-	578,000	370,508
2032-2036	-	-	720,000	225,789
2037-2040	<u>-</u>	<u>-</u>	<u>613,010</u>	<u>54,744</u>
	<u>\$ 2,263,983</u>	<u>\$ 735,492</u>	<u>\$ 6,025,010</u>	<u>\$ 4,185,736</u>

Total interest expense for the City for the year ending December 31, 2006 was \$411,846.

	<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 63,251	\$ 37,819
2008	64,401	33,344
2009	90,651	27,869
2010	92,010	21,410
2011	83,957	14,835
2012-2013	<u>175,000</u>	<u>12,750</u>
	<u>\$ 569,270</u>	<u>\$ 148,027</u>

Total interest expense for the component unit for the year ended December 31, 2006 was \$43,053.

G. Prior Period Adjustments

Beginning net assets for the governmental activities in the government-wide financial statements were adjusted by \$169,120 to reflect a capital asset (Palomino Drive project) incorrectly recorded as a public works expense during the year ended December 31, 2005.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

4. OTHER INFORMATION

A. Defined Benefit Pension Plan

Plan Description

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rates range from 14.44% to 22.87% of annual covered payroll. City employees are not required to contribute to the plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended December 31, 2006, the City's annual MERS pension cost of \$233,614 was equal to the City's required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The significant actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the last actuarial valuation, was 30 years.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Six-Year Trend Information Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/01	\$ 109,262	100%	-
12/31/02	157,475	100%	-
12/31/03	179,817	100%	-
12/31/04	213,667	100%	-
12/31/05	208,923	100%	-
12/31/06	233,614	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Under- funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/00	\$3,187,139	\$4,139,834	\$ 952,695	77%	\$1,016,227	94%
12/31/01	3,482,362	4,574,719	1,092,357	76%	1,023,028	107%
12/31/02	3,630,823	5,004,150	1,373,327	73%	1,071,763	128%
12/31/03	3,967,404	5,452,330	1,484,926	73%	1,142,627	130%
12/31/04	4,294,701	6,120,823	1,826,122	70%	1,237,005	148%
12/31/05	4,608,801	6,310,895	1,702,094	73%	1,223,925	139%

B. Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The City joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its automobile, property, and general liability insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$25,000 for each insured event.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The City is unable to provide an estimate of the amounts of any potential additional assessments.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

The City continues to carry commercial insurance for all other risks of loss. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three years.

C. Lease Receivable

During 2005, the City entered into an agreement with the St. Ignace Visitor's Bureau whereby the St. Ignace Visitor's Bureau is to make payments of \$593.96 per month towards the purchase of the City's library that they are no longer using. The note bears interest at 5% per year, with payments due on the 6th day of each month and a principal balance of \$90,000. The City received principal and interest payments of \$2,980 and \$4,741, respectively, for the current fiscal year. The future payments to be received are as follows:

	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,650	\$ 3,883
2008	3,033	4,094
2009	3,188	3,939
2010	3,351	3,776
2011	3,523	3,604
2012-2016	20,510	15,127
2017-2021	26,321	9,316
2022-2025	<u>23,340</u>	<u>2,204</u>
	<u>\$ 85,916</u>	<u>\$ 45,943</u>

D. Commitments

The City is constructing an intermodal transportation terminal to be used for public transportation. The City has purchased the land for this project at a cost of approximately \$300,000. The building will be constructed in 2007. The project is being funded by federal and state MDOT grants, with a total project cost of \$387,000. Once completed, the terminal will be leased by Indian Trails for a period of 15 years.

During the year 2006, the City entered into an engineering contract for wastewater system improvements. The estimated engineering costs for the project are \$606,000 which is contingent upon funding for the project. The City expects to receive grant monies from the State of Michigan's State Revolving Fund and Strategic Water Quality Initiatives Fund and the United States Department of Agriculture. For the year ended December 31, 2006, \$13,746 had been incurred for engineering services for this project.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

During the year 2006, the DDA entered into a construction contract for the Huron Boardwalk project for approximately \$150,000. As of December 31, 2006, approximately \$108,000 had been expended by the DDA related to this contract. This project is being funded, in part, by a Michigan Natural Resources Trust Fund grant and a Michigan Coastal Management Program grant.

E. Subsequent Events

In February 2007, the City Council approved the purchase of a new truck and plow for the City's Department of Public Works. The vehicle's cost is \$33,865 and will be financed with a four year municipal lease agreement.

F. Other Matters

Deficit fund balances exist in the following funds and amounts as of December 31, 2006:

Community Center Special Revenue Fund	\$ 15,990
Wastewater Plant Capital Project Fund	1,393
Building Authority Debt Service Fund	10,163

At December 31, 2006, deficit net assets of \$4,968 exist in the Data Processing Internal Service Fund and the Downtown Development Authority Component Units Museum Operations Fund has a deficit fund balance of \$490. The City is in the process of submitting a deficit elimination plan to the Department of Treasury, in accordance with Public Act 275 of 1980.

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SUPPLEMENTARY INFORMATION

CITY OF ST. IGNACE

**DETAIL SCHEDULE OF REVENUES - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget			Variance With Amended Budget Positive (Negative)
	Original	Amended	Actual	
Revenues				
Taxes and penalties	\$ 1,140,000	\$ 1,140,000	\$ 1,124,543	\$ (15,457)
Charge for services	50,500	50,500	48,527	(1,973)
State revenue	249,250	249,250	262,448	13,198
Contributions	7,000	7,000	7,000	-
Interest revenue	1,250	1,250	1,128	(122)
Miscellaneous revenue	146,860	146,860	172,898	26,038
Total revenues	\$ 1,594,860	\$ 1,594,860	\$ 1,616,544	\$ 21,684

CITY OF ST. IGNACE

**DETAIL SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Legislative				
City council	\$ 32,500	\$ 32,500	\$ 27,002	\$ 5,498
General government				
City manager	87,900	87,900	87,077	823
Elections	3,100	3,100	5,823	(2,723)
Treasurer	71,400	71,400	68,289	3,111
Clerk	70,300	70,300	70,778	(478)
Board of review	1,800	1,800	2,244	(444)
Building and grounds	48,450	48,450	51,934	(3,484)
City attorney	36,000	36,000	31,996	4,004
Professional services	11,000	11,000	6,923	4,077
Total general government	329,950	329,950	325,064	4,886
Public safety				
Planning	1,000	1,000	1,996	(996)
Police department	277,260	277,260	275,199	2,061
Fire department	104,450	104,450	107,203	(2,753)
Safety and health	1,800	1,800	895	905
Total public safety	384,510	384,510	385,293	(783)
Public works				
Public works	86,150	86,150	130,381	(44,231)
Street lighting	30,000	30,000	32,716	(2,716)
Sidewalk	11,000	11,000	2,399	8,601
Sanitation	3,500	3,500	4,358	(858)
City engineer	10,500	10,500	8,360	2,140
Total public works	141,150	141,150	178,214	(37,064)

Continued...

CITY OF ST. IGNACE

**DETAIL SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2006

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Culture and recreation				
Park maintenance and construction	\$ 107,150	\$ 107,150	\$ 98,559	\$ 8,591
Other expenditures				
Central supplies	11,950	11,950	12,894	(944)
Community development	30,650	30,650	25,386	5,264
Community ambulance	50,000	50,000	29,610	20,390
Insurance and bonds	16,000	16,000	10,460	5,540
Fringe benefits	826,250	826,250	838,613	(12,363)
Office equipment	3,000	3,000	3,000	-
Data processing	22,000	22,000	22,000	-
Interest and fiscal charges	-	-	(554)	554
Total other expenditures	959,850	959,850	941,409	18,441
Total expenditures	1,955,110	1,955,110	1,955,541	(431)
Revenues under expenditures	(360,250)	(360,250)	(338,997)	21,253
Other financing sources (uses)				
Transfers in	522,000	522,000	480,568	(41,432)
Transfers out	(161,750)	(161,750)	(151,250)	10,500
Total other financing sources	360,250	360,250	329,318	(30,932)
Change in fund balance	-	-	(9,679)	(9,679)
Fund balance, beginning of year, as restated	166,416	166,416	166,416	-
Fund balance, end of year	\$ 166,416	\$ 166,416	\$ 156,737	\$ (9,679)

Concluded

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2006

ASSETS	Special Revenue	Debt Service	Capital Project	Permanent Trust Fund	Total
Cash and cash equivalents	\$ 110,414	\$ 1,896	\$ 333,587	\$ -	\$ 445,897
Accounts receivable	15,738	-	5,000	-	20,738
Taxes receivable	10,420	-	-	-	10,420
Due from other governmental units	26,540	-	7,993	-	34,533
Lease receivable	-	-	85,916	-	85,916
Advance to other funds	-	-	83,941	-	83,941
Advance to component unit	-	-	4,536	-	4,536
Restricted cash	-	-	-	23,810	23,810
Total assets	\$ 163,112	\$ 1,896	\$ 520,973	\$ 23,810	\$ 709,791
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 8,881	\$ -	\$ 8,881
Accrued expenses	3,292	-	-	-	3,292
Due to other funds	-	-	587	-	587
Deferred revenue	8,569	-	85,916	-	94,485
Total liabilities	11,861	-	95,384	-	107,245
Fund balances					
Reserved					
Debt service	-	1,896	-	-	1,896
Perpetual care	-	-	-	23,810	23,810
Advances	-	-	88,477	-	88,477
Unreserved					
Designated					
Subsequent year's expenditures	7,950	-	-	-	7,950
Capital projects	-	-	337,112	-	337,112
Undesignated	143,301	-	-	-	143,301
Total fund balances	151,251	1,896	425,589	23,810	602,546
Total liabilities and fund balances	\$ 163,112	\$ 1,896	\$ 520,973	\$ 23,810	\$ 709,791

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2006

	Special Revenue	Debt Service	Capital Project	Permanent Trust Fund	Total
Revenues					
Taxes and penalties	\$ 72,992	\$ -	\$ -	\$ -	\$ 72,992
Charges for services	145,802	-	-	-	145,802
State revenues	326,646	-	12,372	-	339,018
Contributions	40,328	-	14,649	-	54,977
Interest	2,607	447	2,391	475	5,920
Miscellaneous	124,595	-	13,443	-	138,038
Total revenues	712,970	447	42,855	475	756,747
Expenditures					
Public safety	8,468	-	-	-	8,468
Public works	40,299	-	-	-	40,299
Culture and recreation	306,878	-	-	-	306,878
Highways and streets	304,173	-	-	-	304,173
Capital outlay	-	-	56,096	-	56,096
Other	55,504	-	19	-	55,523
Principal	-	265,000	-	-	265,000
Interest and fiscal charges	-	77,388	-	-	77,388
Total expenditures	715,322	342,388	56,115	-	1,113,825
Revenues over (under) expenditures	(2,352)	(341,941)	(13,260)	475	(357,078)
Other financing sources (uses)					
Transfers in	188,000	332,140	22,315	-	542,455
Transfers out	(174,447)	-	(496)	-	(174,943)
Total other financing sources (uses)	13,553	332,140	21,819	-	367,512
Change in fund balances	11,201	(9,801)	8,559	475	10,434
Fund balances, beginning of year	140,050	11,697	417,030	23,335	592,112
Fund balances, end of year	\$ 151,251	\$ 1,896	\$ 425,589	\$ 23,810	602,546

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

DECEMBER 31, 2006

ASSETS	Major Street	Local Street	Building Inspector	Law Enforcement	Library
Cash and cash equivalents	\$ 1,978	\$ 16,682	\$ 4,260	\$ 8,826	\$ 48,030
Accounts receivable	5,000	6,818	366	-	-
Taxes receivable	-	-	-	-	-
Due from other governmental units	11,117	11,497	-	3,926	-
Total assets	\$ 18,095	\$ 34,997	\$ 4,626	\$ 12,752	\$ 48,030
LIABILITIES AND FUND BALANCES					
Liabilities					
Accrued expenses	\$ 613	\$ 406	\$ 584	\$ -	\$ 594
Deferred revenue	-	-	-	-	-
Total liabilities	613	406	584	-	594
Fund balances					
Unreserved					
Designated -					
Subsequent year's expenditures	-	-	-	-	3,850
Undesignated (deficit)	17,482	34,591	4,042	12,752	43,586
Total fund balances	17,482	34,591	4,042	12,752	47,436
Total liabilities and fund balances	\$ 18,095	\$ 34,997	\$ 4,626	\$ 12,752	\$ 48,030

<u>Cemetery</u>	<u>Recreation Program</u>	<u>Silver Mountain Ski Area</u>	<u>Community Center</u>	<u>Insurance Escrow</u>	<u>Vacation & Sick Pay</u>	<u>Total</u>
\$ 2,430	\$ 21,050	\$ 1,146	\$ (15,703)	\$ 501	\$ 21,214	\$ 110,414
1,000	1,746	-	808	-	-	15,738
-	10,420	-	-	-	-	10,420
-	-	-	-	-	-	26,540
<u>\$ 3,430</u>	<u>\$ 33,216</u>	<u>\$ 1,146</u>	<u>\$ (14,895)</u>	<u>\$ 501</u>	<u>\$ 21,214</u>	<u>\$ 163,112</u>
\$ -	\$ -	\$ -	\$ 1,095	\$ -	\$ -	\$ 3,292
-	8,569	-	-	-	-	8,569
-	<u>8,569</u>	-	<u>1,095</u>	-	-	<u>11,861</u>
-	4,100	-	-	-	-	7,950
3,430	20,547	1,146	(15,990)	501	21,214	143,301
<u>3,430</u>	<u>24,647</u>	<u>1,146</u>	<u>(15,990)</u>	<u>501</u>	<u>21,214</u>	<u>151,251</u>
<u>\$ 3,430</u>	<u>\$ 33,216</u>	<u>\$ 1,146</u>	<u>\$ (14,895)</u>	<u>\$ 501</u>	<u>\$ 21,214</u>	<u>\$ 163,112</u>

CITY OF ST. IGNACE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

	Major Street	Local Street	Building Inspector	Law Enforcement	Library
Revenues					
Taxes and penalties	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	7,763	11,318	10,333	3,026	3,522
State revenues	237,985	79,472	-	5,736	3,453
Contributions	-	6,500	-	-	-
Interest	71	314	159	152	906
Miscellaneous	5,000	22,463	3,694	-	73,638
Total revenues	250,819	120,067	14,186	8,914	81,519
Expenditures					
Public safety	-	-	-	8,468	-
Public works	-	-	32,419	-	-
Culture and recreation	-	-	-	-	84,110
Highways and streets	192,217	111,956	-	-	-
Other	-	-	-	-	-
Total expenditures	192,217	111,956	32,419	8,468	84,110
Revenues over (under) expenditures	58,602	8,111	(18,233)	446	(2,591)
Other financing sources (uses)					
Transfers in	-	40,000	27,000	-	-
Transfers out	(51,588)	(23,646)	(10,220)	-	-
Total other financing sources (uses)	(51,588)	16,354	16,780	-	-
Change in fund balances	7,014	24,465	(1,453)	446	(2,591)
Fund balances, beginning of year	10,468	10,126	5,495	12,306	50,027
Fund balances, end of year	\$ 17,482	\$ 34,591	\$ 4,042	\$ 12,752	\$ 47,436

<u>Cemetery</u>	<u>Recreation Program</u>	<u>Silver Mountain Ski Area</u>	<u>Community Center</u>	<u>Insurance Escrow</u>	<u>Vacation & Sick Pay</u>	<u>Total</u>
\$ -	\$ 72,992	\$ -	\$ -	\$ -	\$ -	\$ 72,992
2,450	13,021	8,810	85,559	-	-	145,802
-	-	-	-	-	-	326,646
-	20,828	13,000	-	-	-	40,328
88	191	69	102	-	555	2,607
2,968	79	-	16,253	500	-	124,595
5,506	107,111	21,879	101,914	500	555	712,970
-	-	-	-	-	-	8,468
7,880	-	-	-	-	-	40,299
-	39,205	24,356	159,207	-	-	306,878
-	-	-	-	-	-	304,173
-	-	-	-	-	55,504	55,504
7,880	39,205	24,356	159,207	-	55,504	715,322
(2,374)	67,906	(2,477)	(57,293)	500	(54,949)	(2,352)
-	-	13,000	68,000	-	40,000	188,000
(1,629)	(56,949)	(7,980)	(22,435)	-	-	(174,447)
(1,629)	(56,949)	5,020	45,565	-	40,000	13,553
(4,003)	10,957	2,543	(11,728)	500	(14,949)	11,201
7,433	13,690	(1,397)	(4,262)	1	36,163	140,050
\$ 3,430	\$ 24,647	\$ 1,146	\$ (15,990)	\$ 501	\$ 21,214	\$ 151,251

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS

DECEMBER 31, 2006

ASSETS	Water and Sewer Debt Service	Fire Truck Debt Service	Building Authority Debt Service	Motor Vehicle Bond	Total
Cash and cash equivalents	\$ 127	\$ -	\$ (10,163)	\$ 11,932	\$ 1,896
Total assets (equal to reserved fund balance)	<u><u>\$ 127</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (10,163)</u></u>	<u><u>\$ 11,932</u></u>	<u><u>\$ 1,896</u></u>

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2006

	Water and Sewer Debt Service	Fire Truck Debt Service	Building Authority Debt Service	Motor Vehicle Bond	Total
Revenues					
Interest	\$ 127	\$ -	\$ 82	\$ 238	\$ 447
Expenditures					
Principal	240,000	-	25,000	-	265,000
Interest and fiscal charges	26,490	-	50,898	-	77,388
Total expenditures	266,490	-	75,898	-	342,388
Revenues over (under) expenditures	(266,363)	-	(75,816)	238	(341,941)
Other financing sources					
Transfers in	266,490	-	65,650	-	332,140
Change in fund balances	127	-	(10,166)	238	(9,801)
Fund balances, beginning of year	-	-	3	11,694	11,697
Fund balances, end of year	\$ 127	\$ -	\$ (10,163)	\$ 11,932	\$ 1,896

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS

DECEMBER 31, 2006

ASSETS	Public Improvement	Building Improvement	Fire Truck	Recreation Center	Boardwalk Program
Cash and cash equivalents	\$ 2,531	\$ 70,835	\$ 9,573	\$ 1,254	\$ 25,678
Accounts receivable	-	-	-	-	-
Lease receivable	-	-	-	-	-
Due from other governmental units	-	-	-	-	-
Advance to other funds	-	-	-	-	-
Advance to component unit	-	-	-	-	-
Total assets	\$ 2,531	\$ 70,835	\$ 9,573	\$ 1,254	\$ 25,678
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	-	-	-	-	-
Fund balances					
Reserved for advances	-	-	-	-	-
Unreserved (deficit), designated for capital projects	2,531	70,835	9,573	1,254	25,678
Total fund balances	2,531	70,835	9,573	1,254	25,678
Total liabilities and fund balances	\$ 2,531	\$ 70,835	\$ 9,573	\$ 1,254	\$ 25,678

Pool Enclosure	Dock No. 3 Improvements	Capital Improvement Trust	Library Construction	Wastewater Plant	Total
\$ 18,479	\$ 32,348	\$ 161,310	\$ 11,497	\$ 82	\$ 333,587
-	-	5,000	-	-	5,000
-	-	85,916	-	-	85,916
-	-	-	-	7,993	7,993
-	-	83,941	-	-	83,941
-	-	4,536	-	-	4,536
\$ 18,479	\$ 32,348	\$ 340,703	\$ 11,497	\$ 8,075	\$ 520,973
\$ -	\$ -	\$ -	\$ -	\$ 8,881	\$ 8,881
-	-	-	-	587	587
-	-	85,916	-	-	85,916
-	-	85,916	-	9,468	95,384
-	-	88,477	-	-	88,477
18,479	32,348	166,310	11,497	(1,393)	337,112
18,479	32,348	254,787	11,497	(1,393)	425,589
\$ 18,479	\$ 32,348	\$ 340,703	\$ 11,497	\$ 8,075	\$ 520,973

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2006

	Public Improvement	Building Improvement	Fire Truck	Recreation Center	Boardwalk Program
Revenues					
State revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	-	4,803	7,746	-	-
Interest	50	1,351	99	63	518
Miscellaneous	-	-	-	722	-
Total revenues	50	6,154	7,845	785	518
Expenditures					
Capital outlay	-	2,071	9,006	11,259	413
Other	-	-	-	-	-
Total expenditures	-	2,071	9,006	11,259	413
Revenues over (under) expenditures	50	4,083	(1,161)	(10,474)	105
Other financing sources (uses)					
Transfers in	-	5,000	7,250	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	5,000	7,250	-	-
Change in fund balances	50	9,083	6,089	(10,474)	105
Fund balances, beginning of year	2,481	61,752	3,484	11,728	25,573
Fund balances, end of year	\$ 2,531	\$ 70,835	\$ 9,573	\$ 1,254	\$ 25,678

Pool Enclosure	Dock No. 3 Improvements	Capital Improvement Trust	Library Construction	Wastewater Plant	Total
\$ -	\$ -	\$ -	\$ -	\$ 12,372	\$ 12,372
-	-	-	2,100	-	14,649
369	673	(1,174)	442	-	2,391
-	-	12,721	-	-	13,443
369	673	11,547	2,542	12,372	42,855
-	1,879	-	17,722	13,746	56,096
-	-	-	-	19	19
-	1,879	-	17,722	13,765	56,115
369	(1,206)	11,547	(15,180)	(1,393)	(13,260)
-	-	10,065	-	-	22,315
-	(496)	-	-	-	(496)
-	(496)	10,065	-	-	21,819
369	(1,702)	21,612	(15,180)	(1,393)	8,559
18,110	34,050	233,175	26,677	-	417,030
\$ 18,479	\$ 32,348	\$ 254,787	\$ 11,497	\$ (1,393)	\$ 425,589

CITY OF ST. IGNACE
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

DECEMBER 31, 2006

	BFI Garbage Collection	Golf Course	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 3,941	\$ 96,058	\$ 99,999
Investments	-	50,000	50,000
Accounts receivable	10,748	-	10,748
Total current assets	14,689	146,058	160,747
Property and equipment, net of accumulated depreciation	-	128,955	128,955
Total assets	14,689	275,013	289,702
Net assets			
Invested in capital assets	-	128,955	128,955
Unrestricted	14,689	146,058	160,747
Total net assets	\$ 14,689	\$ 275,013	\$ 289,702

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - NONMAJOR ENTERPRISE FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2006

	BFI Garbage Collection	Golf Course	Total
Operating revenues			
Sales and charges for services	\$ 95,503	\$ 143,271	\$ 238,774
Operating expenses			
Personal services	-	56,554	56,554
Contracted services	95,497	1,366	96,863
Repair and maintenance	-	26,939	26,939
Supplies	-	6,951	6,951
Depreciation	-	27,582	27,582
Miscellaneous	-	29,457	29,457
Total operating expenses	95,497	148,849	244,346
Operating income (loss)	6	(5,578)	(5,572)
Non-operating revenues			
Interest	-	3,642	3,642
Miscellaneous	1,148	18,125	19,273
Total non-operating revenues	1,148	21,767	22,915
Income before transfers	1,154	16,189	17,343
Other financing uses			
Transfers out	-	(19,794)	(19,794)
Change in net assets	1,154	(3,605)	(2,451)
Net assets, beginning of year	13,535	278,618	292,153
Net assets, end of year	\$ 14,689	\$ 275,013	\$ 289,702

CITY OF ST. IGNACE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

	BFI Garbage Collection	Golf Course	Total
Cash flows from operating activities			
Cash collected from customers	\$ 95,958	\$ 143,271	\$ 239,229
Cash paid for employee wages and benefits	-	(56,554)	(56,554)
Cash paid for other operating and administrative expenses	(103,291)	(64,713)	(168,004)
Net cash (used in) provided by operating activities	(7,333)	22,004	14,671
Cash flows from non-capital financing activities			
Transfers out	-	(19,794)	(19,794)
Other income	1,148	18,125	19,273
Net cash provided by (used in) non-capital financing activities	1,148	(1,669)	(521)
Cash flows from capital and related financing activities			
Purchase of property and equipment	-	(16,556)	(16,556)
Cash flows from investing activities			
Interest revenue	-	3,642	3,642
Net (decrease) increase in cash and cash equivalents	(6,185)	7,421	1,236
Cash and cash equivalents, beginning of year	10,126	88,637	98,763
Cash and cash equivalents, end of year	\$ 3,941	\$ 96,058	\$ 99,999

Continued...

CITY OF ST. IGNACE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>BFI Garbage Collection</u>	<u>Golf Course</u>	<u>Total</u>
Operating income (loss)	\$ 6	\$ (5,578)	\$ (5,572)
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities			
Depreciation and amortization	-	27,582	27,582
Changes in operating assets and liabilities which (used) provided cash			
Accounts receivable	455	-	455
Accounts payable	(7,794)	-	(7,794)
Net cash (used in) provided by operating activities	<u><u>\$ (7,333)</u></u>	<u><u>\$ 22,004</u></u>	<u><u>\$ 14,671</u></u>

Concluded

CITY OF ST. IGNACE
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

DECEMBER 31, 2006

	<u>Data Processing</u>	<u>Equipment</u>	<u>Office Equipment Pool</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ (4,156)	\$ (25,694)	\$ (3,404)	\$ (33,254)
Property and equipment, net of accumulated depreciation	<u>-</u>	<u>412,876</u>	<u>18,479</u>	<u>431,355</u>
Total assets	<u>(4,156)</u>	<u>387,182</u>	<u>15,075</u>	<u>398,101</u>
Liabilities				
Current liabilities				
Accrued expenses	812	974	-	1,786
Current portion of note payable	<u>-</u>	<u>33,263</u>	<u>-</u>	<u>33,263</u>
Total current liabilities	<u>812</u>	<u>34,237</u>	<u>-</u>	<u>35,049</u>
Notes payable, net of current portion	<u>-</u>	<u>85,720</u>	<u>-</u>	<u>85,720</u>
Total liabilities	<u>812</u>	<u>119,957</u>	<u>-</u>	<u>120,769</u>
Net assets				
Invested in capital assets, net of related debt	-	293,893	18,479	312,372
Unrestricted (deficit)	<u>(4,968)</u>	<u>(26,668)</u>	<u>(3,404)</u>	<u>(35,040)</u>
Total net assets	<u>\$ (4,968)</u>	<u>\$ 267,225</u>	<u>\$ 15,075</u>	<u>\$ 277,332</u>

CITY OF ST. IGNACE
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

	Data Processing	Equipment	Office Equipment Pool	Total
Operating revenues				
Charges for services	\$ 76,560	\$ 215,491	\$ 5,750	\$ 297,801
Operating expenses				
Personal services	42,218	61,341	-	103,559
Contracted services	9,983	1,065	-	11,048
Repair and maintenance	65	72,238	4,226	76,529
Supplies	3,143	55,679	4,068	62,890
Depreciation	-	82,980	4,600	87,580
Miscellaneous	5,696	21,658	-	27,354
Total operating expenses	61,105	294,961	12,894	368,960
Operating income (loss)	15,455	(79,470)	(7,144)	(71,159)
Non-operating revenues (expenses)				
Interest income	192	553	98	843
Interest expense	-	(6,293)	-	(6,293)
Miscellaneous	-	2,059	-	2,059
Total non-operating revenues	192	(3,681)	98	(3,391)
Income (loss) before transfers	15,647	(83,151)	(7,046)	(74,550)
Other financing sources (uses)				
Transfers in	8,000	-	-	8,000
Transfers out	(31,644)	(53,971)	-	(85,615)
Total other financing sources (uses)	(23,644)	(53,971)	-	(77,615)
Change in net assets	(7,997)	(137,122)	(7,046)	(152,165)
Net assets, beginning of year	3,029	404,347	22,121	429,497
Net assets, end of year	\$ (4,968)	\$ 267,225	\$ 15,075	\$ 277,332

CITY OF ST. IGNACE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

	Data Processing	Equipment	Office Equipment Pool	Total
Cash flows from operating activities				
Cash collected from other funds	\$ 76,560	\$ 215,491	\$ 5,750	\$ 297,801
Cash paid for employee wages and benefits	(42,218)	(61,341)	-	(103,559)
Cash paid for other operating and administrative expenses	(18,861)	(160,129)	(8,294)	(187,284)
Net cash provided by (used in) operating activities	15,481	(5,979)	(2,544)	6,958
Cash flows from non-capital financing activities				
Transfers in	8,000	-	-	8,000
Transfers out	(31,644)	(53,971)	-	(85,615)
Other income	-	2,059	-	2,059
Net cash used in non-capital financing activities	(23,644)	(51,912)	-	(75,556)
Cash flows from capital and related financing activities				
Interest expense	-	(6,293)	-	(6,293)
Principal payments	-	(31,962)	-	(31,962)
Purchase of property and equipment	-	-	(15,714)	(15,714)
Net cash used in capital and related financing activities	-	(38,255)	(15,714)	(53,969)
Cash flows from investing activities				
Interest revenue	192	553	98	843
Net decrease in cash and cash equivalents	(7,971)	(95,593)	(18,160)	(121,724)
Cash and cash equivalents, beginning of year	3,815	69,899	14,756	88,470
Cash and cash equivalents, end of year	\$ (4,156)	\$ (25,694)	\$ (3,404)	\$ (33,254)

Continued...

CITY OF ST. IGNACE

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Data Processing</u>	<u>Equipment</u>	<u>Office Equipment Pool</u>	<u>Total</u>
Operating income (loss)	\$ 15,455	\$ (79,470)	\$ (7,144)	\$ (71,159)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	-	82,980	4,600	87,580
Changes in operating assets and liabilities which provided (used) cash				
Accounts payable	-	(9,535)	-	(9,535)
Accrued expenses	26	46	-	72
Net cash provided by (used in) operating activities	<u>\$ 15,481</u>	<u>\$ (5,979)</u>	<u>\$ (2,544)</u>	<u>\$ 6,958</u>
Noncash non-capital financing and investing activities				
Equipment purchased with note payable		<u>\$ 103,449</u>		<u>\$ 103,449</u>

Concluded

CITY OF ST. IGNACE

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - CURRENT TAX COLLECTION FUND**

FOR THE YEAR ENDED DECEMBER 31, 2006

	Balance January 1, 2006	Additions	Deductions	Balance December 31, 2006
ASSETS				
Cash and cash equivalents	<u>\$ 201,351</u>	<u>\$ 3,631,502</u>	<u>\$ 3,462,587</u>	<u>\$ 370,266</u>
LIABILITIES				
Due to other governmental units	<u>\$ 201,351</u>	<u>\$ 3,631,502</u>	<u>\$ 3,462,587</u>	<u>\$ 370,266</u>

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
GOVERNMENTAL COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY

DECEMBER 31, 2006

	General Downtown	Museum Operations	Property Management	Debt Service	American Legion Park
Assets					
Cash and cash equivalents	\$ 33,809	\$ (490)	\$ 15,751	\$ 221,007	\$ (46,673)
Taxes receivable	14,552	-	-	19,843	-
Due from primary government	-	-	-	38,104	-
Due from other governmental units	-	-	-	-	95,926
Inventory	-	-	-	-	-
Total assets	\$ 48,361	\$ (490)	\$ 15,751	\$ 278,954	\$ 49,253
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 17,179	\$ 41,979
Accrued expenses	585	225	-	-	-
Due to other governmental units	-	-	-	206,205	-
Advance from other funds	-	-	4,536	-	-
Total liabilities	585	225	4,536	223,384	41,979
Fund balances					
Reserved for debt service	-	-	-	55,570	-
Unreserved, designated	-	-	-	-	7,274
Unreserved, undesignated	47,776	(715)	11,215	-	-
Total fund balances	47,776	(715)	11,215	55,570	7,274
Total liabilities and fund balances	\$ 48,361	\$ (490)	\$ 15,751	\$ 278,954	\$ 49,253

**Reconciliation of fund balances on the balance sheet for the component unit
to the statement of net assets**

Total component unit fund balances

Amounts reported for the component unit in the statement of net assets are different because

Capital assets used in the component unit are not financial resources and therefore are not reported in the funds.

Add - capital assets, net

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds and installment contracts payable

Deduct - accrued interest on bonds payable

Net assets of the component unit

Museum Store	Gateway Project	Total
\$ (4,615)	\$ 411	\$ 219,200
-	-	34,395
-	-	38,104
-	-	95,926
38,403	-	38,403
\$ 33,788	\$ 411	\$ 426,028
\$ -	\$ -	\$ 59,158
2,076	-	2,886
-	-	206,205
-	-	4,536
2,076	-	272,785
-	-	55,570
-	-	7,274
31,712	411	90,399
31,712	411	153,243
\$ 33,788	\$ 411	\$ 426,028

\$ 153,243

1,140,035

(569,270)
(8,050)

\$ 715,958

CITY OF ST. IGNACE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY

FOR THE YEAR ENDED DECEMBER 31, 2006

	General Downtown	Museum Operations	Property Management	Debt Service	American Legion Park
Revenues					
Taxes and penalties	\$ 210,914	\$ -	\$ -	\$ 111,698	\$ -
Charges for services	-	13,133	-	-	-
Federal revenue	-	-	-	-	40,000
State revenue	750	-	-	-	55,926
Interest	410	204	468	4,562	408
Miscellaneous	-	13,075	18,291	-	5,000
Total revenues	212,074	26,412	18,759	116,260	101,334
Expenditures					
Culture and recreation	145,571	93,837	19,370	-	-
Capital outlay	7,426	-	-	-	124,824
Principal	-	-	-	62,192	-
Interest and fiscal charges	-	-	450	42,603	-
Total expenditures	152,997	93,837	19,820	104,795	124,824
Revenues over (under) expenditures	59,077	(67,425)	(1,061)	11,465	(23,490)
Other financing sources (uses)					
Transfers in	-	40,000	-	-	5,000
Transfers out	(50,802)	-	-	-	-
Total other financing sources (uses)	(50,802)	40,000	-	-	5,000
Change in fund balances	8,275	(27,425)	(1,061)	11,465	(18,490)
Fund balances, beginning of year	39,501	26,710	12,276	44,105	25,764
Fund balances, end of year	\$ 47,776	\$ (715)	\$ 11,215	\$ 55,570	\$ 7,274

Reconciliation of the statement of revenues, expenditures and change in fund balance of the component unit to the statement of activities

Net change in fund balances - total component unit

Amounts reported for the component unit in the statement of activities are different because

Component units report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay

Deduct - depreciation expense

Repayment of bond principal is an expenditure in the component unit, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - current year decrease in accrued interest

Change in net assets of component unit

Museum Store	Gateway Project	Total
\$ -	\$ -	\$ 322,612
72,191	-	85,324
-	60,840	100,840
-	-	56,676
407	6	6,465
4,206	-	40,572
76,804	60,846	612,489
76,389	-	335,167
-	66,646	198,896
-	-	62,192
-	-	43,053
76,389	66,646	639,308
415	(5,800)	(26,819)
-	5,802	50,802
-	-	(50,802)
-	5,802	-
415	2	(26,819)
31,297	409	180,062
\$ 31,712	\$ 411	\$ 153,243

\$ (26,819)

187,013
(66,450)

62,192

819
\$ 156,755



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

April 26, 2007

Honorable Mayor and Members
of the City Council
City of St. Ignace
St. Ignace, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of St. Ignace** (the "City"), as of and for the year ended December 31, 2006, which collectively comprise the **City of St. Ignace's** basic financial statements and have issued our report thereon dated April 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2006-1 and 2006-2.

Finding 2006-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due principally to state budget cuts and the related negative impact on cash funds available to the City, the hiring of accounting personnel capable of writing the City's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

The City's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

Finding 2006-2: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Response: As noted above, due to decreased cash flows of the City, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the City's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the City Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

The City's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described below as item 2006-3.

The instance of noncompliance is described as follows:

Finding 2006-3: The City is underfunded in its required cash reserves, which is a violation of its bond covenants. See Note #3F.

Response: Due to cash shortfalls at the City in the past 3-5 years, the City has been unable to accumulate reserves required by its bond agreements. Management is developing a cash management and operation plan necessary to build cash reserves to required balances.

The City's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

We noted certain other matters that we reported to the Audit Committee of the City of St. Ignace in a separate letter dated April 26, 2007.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.



April 26, 2007

Audit Committee
City Council
City of St. Ignace
St. Ignace, Michigan

In planning and performing our audit of the financial statements of the *City of St. Ignace* (the “City”) as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the City’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Company’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, as discussed on subsequent pages, we identified certain deficiencies in internal control that we consider to be significant deficiencies and certain other matters related to operational or administrative efficiencies and improvements to internal controls.

This communication is intended solely for the information and use of the audit committee, management, the City Council and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

This letter does not affect our report dated April 26, 2007 on the financial statements of the City.

A handwritten signature in black ink, reading "Lehmann Lohson". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

**CITY OF ST. IGNACE
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006**

SIGNIFICANT DEFICIENCIES

1. Management's Inability to Produce Financial Statements In Accordance With Accounting Principles Generally Accepted in the United States of America

All Michigan governments are required to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2. Internal Controls and Segregation of Duties

All Michigan governments are required to establish an internal control structure with segregation of responsibilities necessary to prevent a misappropriation of assets or fraudulent financial reporting. This is a responsibility of the City's management. Adequate segregation of duties as relates to the cash cycle of a municipality requires separation of the management function, the custody of assets function and the accounting function.

As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

The City's staff does not allow for adequate separation of duties. Certain members of the accounting department are responsible for the custody of assets as well as for the accounting for those assets. Further, certain employees holding management positions also collect or disburse cash or account for the transactions of the City.

This condition was caused by the small size of the City's management and accounting staff. The four member accounting staff does not allow for adequate separation of duties as described above.

As a result of this condition, the City lacks sufficient internal controls related to the adequate level of segregation of duties over the transactions of the cash cycle.

The City has evaluated the cost vs. benefit of establishing adequate segregation of duties over the transactions of the cash cycle and determined that it is in the best interests of the City to maintain its current staffing level. To improve internal controls, to mitigate the lack of segregation of duties, City Council and/or its Audit Committee acts to monitor these transactions by scrutinizing budget to actual financial reports, cash reports, and check registers provided by the City Clerk on a monthly basis.

3. Noncompliance with Debt Covenants

The City has entered into several bonds that require cash reserves be maintained to fund the principal and interest payments on the related debt.

Specifically, the City is required to maintain certain levels of cash balances to comply with debt covenants related to the Sanitary Sewer Disposal System Revenue Bonds, Series 1999A in the amount of \$214,790 as of December 31, 2006. As of December 31, 2006, the City has no reserve established.

This non-compliance with the Sanitary Sewer Disposal System Revenue Bonds, Series 1999A was caused by the revenues of the Enterprise Sewer Fund being insufficient to cover operating expenses of the fund over the past several years. As a result, the City has been unable to build the reserve account to sufficient levels.

As a result of this condition, the City is out of compliance with its bond covenants and the debt could be called for immediate payment. The City has been out of compliance for the past several years.

The City has worked closely with bond counsel to discuss procedures for establishing and building the bond reserve. To date, bond counsel has not penalized the City for noncompliance. The City has developed a five-year plan to build revenues in excess of expenses sufficient to fund the reserve.

OTHER MATTERS

Cash Management

In 2005, we noted that management had been reconciling cash monthly and clearing reconciling items on a timely basis. City Council was receiving monthly reports of cash levels in an attempt to better manage the low levels of cash held by the City. The following funds had negative cash balances at December 31, 2005:

Major Street Special Revenue Fund	\$ 35,199
Local Street Special Revenue Fund	69,933
#701 Capital Improvement Fund	138,666
Sewer Enterprise Fund	229,440
Marina Enterprise Fund	38,817

Further, at December 31, 2005, all cash of the Water Enterprise Fund was restricted for bond reserve requirements. No cash was available for operations.

It was recommended in 2004 and 2005 that the City Council, working together with management, should develop short-term plans for the elimination of the negative cash balances. If the negative cash balances could not be rectified in the short run, management was encouraged to transfer cash from another fund, to cover the operating shortage. Further, management of the affected fund should affect a reduction in related expenditures until which time that additional revenues may be generated.

Current Year Comments and Recommendations

Throughout 2006, management has again reported negative cash balances in various funds. As of December 31, 2006, the following funds had negative cash balances:

Community Center Special Revenue Fund	\$ 15,703
Recreation Debt Service Fund	53,390
Building Authority Debt Service Fund	10,163
Water Enterprise Fund	177,308
Sewer Enterprise Fund	149,765
Marina Enterprise Fund	56,083
Data Processing Internal Service Fund	4,156
Equipment Internal Service Fund	25,694
Office Equipment Pool Internal Service Fund	3,404

Further, all cash of the Water Enterprise Fund is restricted for bond reserve requirements. No cash was available for operations at December 31, 2006.

Once again, we recommend that City Council be provided with a Cash Management Report monthly. This report should list the allocation of cash to each fund from pooled and separately held cash. We recommend the negative cash balances be highlighted. With respect to each fund with negative cash, management should document for City Council, the short-term plan for the elimination of the negative cash balance. If the negative cash balance will not be rectified in the short run, management should recommend a transfer from another fund, to cover the operating shortage. Further, management of the affected fund should affect a reduction in related expenditures until which time that additional revenues may be generated.

As a part of the Cash Management and balancing of cash, a report should be developed which specifically list the general ledger accounts, which comprise each cash balance. The cash accounts are blended and the allocation to specific bank accounts is not clear. This format will provide a more comprehensive presentation of the cash and will provide management with a better tool to monitor the negative balances noted above.

In addition, the Council should develop a formal deposit account policy, which assesses the specific exposure risk that City Council will allow, and City Council should annually approve the bank relationships, in addition to the authorized signors.

Per review of the City of St. Ignace Ordinance #469, to adopt and approve a development plan and a tax increment financing plan, the Treasurer should established a separate fund as approved by the City Manager. All monies in the fund shall be used in accordance with the development plan. Currently, the City includes the Downtown Development Authority (“DDA”) escrow funds in the City’s combined cash account. We recommend that the City establish a separate bank account for the DDA escrow funds.

Per review of the City’s tax collection and special tax collection bank accounts, we noted that the City Treasurer is the only individual signing the disbursement checks. We recommend that the City implement a dual signature policy on both accounts to be consistent with their dual signature policy of the other funds of the City.

Through the process of confirming the bank accounts of the City, it was determined that the Friends of St. Ignace Public Library organization is using the City’s tax identification number on their bank account. As a separate organization outside the internal control structure or financial reporting requirements of the City, the Friends of St. Ignace Public Library should establish a bank account using their own tax identification number. We recommend that the City contact the Friends of St. Ignace Public Library and request that they update the records at the Bank with the proper tax identification number.

Further, it was determined that the City is maintaining a bank account at Central Savings Bank which is no longer active. The City should consider whether this account should be closed. If not, City Council should continue to authorize the use of the account as part of its annual organizational meeting and should establish a means of monitoring the use of the account.

Bond Reserve Requirements

In 2005, the following cash reserves were requirement relating to bond offerings for water and sewer system repair and replacements:

Water Enterprise Fund

Water Supply System Revenue Refunding Bonds Series 2002	\$ 286,500
Water Supply System Revenue Bond Series 2000	<u>80,300</u>
Total Water Enterprise Fund Required Reserves	<u>\$ 366,800</u>

Sewer Enterprise Fund

Sanitary Sewer Disposal System Revenue Bonds Series 1999A	<u>\$ 214,790</u>
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As of December 31, 2005, the Water Enterprise Fund had reserves sufficient to meet the requirements of the bond agreement (\$415,685 reserve cash balance at December 31, 2005). The Sewer Enterprise had no balance in the bond reserves and therefore, was under-funded by the full \$214,790.

We recommended as of December 31, 2005, that the City establish and implement a plan to generate the additional revenue or reduce costs in the Sewer Enterprise fund as required to re-establish the bond reserve balances necessary to meet the compliance requirements of the related debt agreements. The City was further encouraged to continue to monitor the Water Enterprise Fund Bond reserves to ensure the balances remain reserved and are not used to finance daily operations.

Current Comments and Recommendations

As of December 31, 2006, the City was required, per its related bond agreements, to hold the following cash reserves:

Water Enterprise Fund

Water Supply System Revenue Refunding Bonds Series 2002	\$ 274,000
Water Supply System Revenue Bond Series 2000	<u>94,900</u>
Total Water Enterprise Fund Required Reserves	<u>\$ 368,900</u>

Sewer Enterprise Fund

Sanitary Sewer Disposal System Revenue Bonds Series 1999A	<u>\$ 258,542</u>
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As of December 31, 2006, the Water Enterprise Fund had reserves sufficient to meet the requirements of the bond agreement (\$455,674 reserve cash balance at December 31, 2006). The Sewer Enterprise had no balance in the bond reserves and therefore, was under-funded by the full \$258,542.

The Sewer Enterprise Fund must continue to increase revenue or decrease expenditures in order to generate the additional cash necessary to refund the reserves. To address the under-funded reserve, the City has established a plan to generate the addition revenue in the Sewer Enterprise fund. We recommend full implementation of the plan and careful monitoring of the revenue as well as controlled spending until the City is again in compliance with its bond reserves. Further, the City should continue to monitor the Water Enterprise Fund Bond reserves ensuring the balances remain reserved and not used to finance daily operations.

Liability for Accrued Sick and Vacation Benefits

As of December 31, 2005, we noted that the City provided employees who had accumulated sick and vacation pay, the benefit of payout at retirement based on the provisions of their respective employment contracts. During 2005, the City transferred \$35,000 to the Accrued Sick and Vacation Fund, and paid approximately \$31,000 in benefits resulting in an increase to the fund balance of approximately \$5,000 and an ending fund balance of approximately \$36,000. The related liability as of December 31, 2005 was approximately \$365,000 with a potential payout in 2006 of approximately \$140,000 (amounts related to all eligible for retirement in 2006). We recommended that management evaluate the retirement eligibility dates of each employee and determine the potential required cash flows into the future so that appropriate amounts may be transferred to the Accrued Sick and Vacation Fund annually.

Current Year Comments and Recommendations

During 2006, the City transferred \$40,000 to the Accrued Sick and Vacation Fund, and paid approximately \$55,500 in benefits resulting in a decrease to the fund balance of approximately \$15,000 and an ending fund balance of approximately \$21,000. The related liability as of December 31, 2006 is approximately \$341,500 with a potential payout in 2007 of approximately \$160,800 (amounts related to all eligible for retirement in 2007).

Management should update and monitor the spreadsheet used to calculate the timing of accrued sick and vacation payouts based on the retirement eligibility of each employee of the City. The minimum cash balance in the Accrued Sick and Vacation Fund should be an amount equal to the accrued sick and vacation balances of each employee eligible for retirement in the subsequent year. Management must then develop a plan to establish the related cash balance.

Public Act 51 Road/Street Bank Accounts

The Michigan Department of Treasury requires that the Local and Major Street Funds have a separate bank account used to account for gas and weight taxes used for street and highway repair and maintenance. At December 31, 2005, the City held these funds in pooled cash.

As of December 31, 2006, the City has not established a separate bank account for the purpose of recording gas and weight tax revenues used for street and highway repair and maintenance. We recommend that the City establish and maintain a separate bank account for Local and Major Street Fund cash to comply with the requirements of the Michigan Department of Treasury and to provide more accurate record keeping of the fund.

Over-Capture of DDA Taxes

As noted in the prior year comments and recommendations, over the past several years, the City Treasurer has been cooperating with various employees of the State of Michigan to determine the actual amount by which the State has determined to be over-captured by the City. During 2005, the State of Michigan issued a communication to the City identifying the amount over-captured, over an eleven year period to be approximately \$270,000. The amounts reported by the State Auditor for 1994, 1996, 2002, and 2003 were being disputed by the City and the City believed the amount determined as "over-captured" would be reduced to \$206,105. The City had set aside approximately \$170,000 in anticipation of the ultimate resolution of the State claim. Once resolved, the City would be required to remit payment to the State of Michigan promptly.

During the process of working with the State of Michigan Department of Treasury to determine the amount of the DDA over-capture, it was determined that the 1994 DDA Streetscape Debt Service payments which were to be split 50/50 between the DDA and the City, were split for the first two years, and then were made 100% by the DDA subsequent to 1997. As a result, it was determined that the City would be required to reimburse the DDA for their share of the payments (approximately \$38,000) and that the DDA, in turn, would be required to refund the amount to the State of Michigan.

As a result of the probable resolution to this long-standing issue and the ability to reasonably estimate the amount due which occurred during 2005, the City recorded the estimated liability due to the State of Michigan as of December 31, 2006. Further, based on the determination of the City's error in the source of funds required to make the DDA Debt Service payment, a liability was recorded from the City to the DDA and from the DDA to the State of Michigan.

During 2006, no additional transactions were recorded for the over-capture of DDA taxes. The estimated liability due to the State of Michigan and between the City and the DDA has not changed. Per management, the State has not yet requested reimbursement.

Deficit Fund Balances

As of December 31, 2005, the Silver Mountain Ski Area Non-Major Special Revenue Fund and the Community Center Special Revenue Fund had deficit fund balances of \$1,397 and \$4,262, respectively. This resulted from the funds costs exceeding the revenues received. We recommended, as required by the Michigan Department of Treasury, that the City file a deficit elimination plan with the State of Michigan Department of Treasury.

Deficit elimination plans for the funds that had deficit fund balances at December 31, 2005 were not filed timely, but were filed in February, 2007.

As of December 31, 2006, the Community Center Non-Major Special Revenue Fund, the Wastewater Plant Non-Major Capital Project Fund and the Building Authority Non-Major Debt Service Fund had deficit fund balances of \$15,990, \$1,393, and \$10,163, respectively. This resulted from the funds costs exceeding the revenues received. While the fund balances remain in deficit position, the City must again, file a timely deficit elimination plan with the State of Michigan Department of Treasury.

Single Audit Requirements

The City may be subject to federal compliance requirements (Single Audit in accordance with the provisions of OMB Circular A-133) for 2007 if expenditures of federal awards exceed \$500,000. It appears likely that a Single Audit will be necessary in 2007 as a result of the intermodal passenger facility contract with the Michigan Department of Transportation which includes significant pass-through federal funds.

If, in fact, the City is required to comply with provisions of a Single Audit, a schedule of expenditures of federal awards must be prepared. In order for the City to continue to receive federal funds, it is critical that this schedule be completed thoroughly and properly. Information from this schedule is then required to be transmitted to the U.S. Department of Commerce via a Data Collection Form. It is necessary for the City to identify the following in order to prepare the schedule:

- The amount of each federal award or grant
- The name of the federal agency (such as U.S. Department of Justice) and, if applicable, the pass-through agency (such as the Michigan State Police)
- The award or grant program title
- The Catalog of Federal Domestic Assistance (CFDA) number of the award or grant
- The program or award grant number
- The amount of the federal award or grant expended during the year

Although a Single Audit was not required for the year ended December 31, 2006, during our audit procedures research was necessary to determine if pass-through funds from various state agencies were from federal sources. Also, financial statement reclassification of certain grants between state sources and federal sources was necessary. We would recommend establishing separate accounts for the federal and state portions of grant revenues in order to track the revenue sources accurately.

We recommend that the City's accounting department obtain the above information when federal awards or grants are received, rather than waiting until year end. The accounting department may consider creating a standard form that must be completed with the required information. The City's various departments could then complete the form when federal awards or grants are obtained. Following this procedure, the City will have these revenues properly classified as federal or state and would be able to prepare a draft schedule of expenditures of federal awards.

Personnel management

The Health Insurance Personal Portability Act (HIPPA) has established many restrictions, especially related to the privacy of individual's medical records. Although the City is not required to fully comply with HIPPA, there are portions of the Act which effect governmental entities. Employee's personnel files should not contain any medical information on the employee. A separate medical file, with restricted access, should be maintained for each employee. The types of information which is segregated includes health insurance enrollment forms, family medical leave act (FMLA) leave, American's with Disabilities Act (ADA) work place accommodations information, worker's compensation information, and any other medical information. The City's management should become familiar with the regulations related to employment matters and ensure the City's compliance with these regulations.

Conformity with the Uniform Chart of Accounts

The Michigan Department of Treasury requires City's to use the Uniform Chart of Accounts. The City is using many of the account number sequences however; we noted several instances of non compliance with the Uniform Chart of Accounts. We recommend that the City's management review the fund and account structures to ensure full compliance.

Expenditures – Compliance with State of Michigan Regulations

In order to keep the City's management informed regarding State of Michigan regulations, we present below a list of examples of illegal or unauthorized expenditures as defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H). We recommend that the City's management become familiar with this list in order to prevent the potential for illegal or unauthorized expenditures of the City's funds.

- Contributions to churches, veterans, nonprofit organizations.
- Payment of funeral expenses for a person injured on government property.
- Donations to a private ambulance or EMS service not under contract with the governmental unit.
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
- Donations to community organizations.
- Expenses for private road constructions or maintenance.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognition events.
- Flowers to the sick or departed.
- Mileage of officials and employees to and from their residence to the City Hall.
- Extra compensation for summer tax collections unless part of the initial salary resolution or authorized with statutory procedures for an increase in salary.
- Extra compensation for special elections unless part of initial salary resolution or authorized under statutory procedures for an increase in salary.

In addition, according to the Michigan Department of Treasury, the legislative body (board or council) must approve *all* invoices prior to payment, unless addressed otherwise in the charter. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval.

In our testing of the expenditures, we noted that the City transferred funds to the Chamber of Commerce and also paid bonuses to employees. As noted above these are not authorized expenditures. This stresses the need for management to familiarize themselves with the current regulations relating to expenditures.

GASB 34 Fund

Governmental Accounting Standards Board (GASB) Statement No. 34 required governmental entities, such as cities, to present certain information in government-wide financial statements. The City successfully implemented GASB 34 for its year ended December 31, 2004. A separate fund is to be set-up in order to account for GASB 34 transactions. However, the City currently does not have this fund established. While the State of Michigan does not yet require this fund to be included in the City's accounting records, we recommend that the City create this fund and adjust it annually at the year-end audit in anticipation of the future requirement that the fund be maintained.

SEC Rule 15C2-12 Disclosure Requirements

Prior Year and Current Year Comments and Recommendations

SEC Rule No. 240.15c2-12 requires issuers of municipal securities in principal amounts of \$1 million or more or whose outstanding aggregate debt exceeds \$10 million, to report financial and operational information as well as notice of material events to nationally recognized municipal securities information repositories annually. The City is subject to these reporting requirements. We recommend you contact your bond counsel who will generally assist in the preparation and timely submission of the annual disclosures required.

Michigan Finance Qualifying Statement

Prior Year and Current Year Comments and Recommendations

All governmental units subject to the Revised Municipal Finance Act (PA34 of 2001) must submit a Michigan Finance Qualifying Statement that allows governmental units to be eligible to apply for financing during the fiscal year. The City must submit their qualifying statement electronically using the Michigan Department of Treasurer's website. The City Manager must contact the Local Audit and Finance Division of the Department of Treasury to establish a password to access the system and electronically submit their qualifying statement. The qualifying statement is due to the Michigan Department of Treasury by June 30, 2007.

Electronically Filing the Financial Statements

Prior Year and Current Year Comments and Recommendations

The Michigan Department of Treasury has issued Numbered Letter 2005-2 which requires (under the authority of Michigan Compiled Law 141.427(1) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (pdf) compatible with Adobe Acrobat. We have provided the necessary information, in this electronic format, to the City Clerk to enable the City to comply.

Conclusion

We would like to thank City Council for its business and to thank the City's management team for their assistance during the audit.